

Social Security Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Social Security Scotland and the Auditor General for Scotland

October 2021

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Key messages

2020/21 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 DWP through agency agreements were material at £65.4 million. This expenditure was not incurred in accordance with the applicable enactments.
- 2 All other audit opinions are unmodified.

Financial management and sustainability

- 3 Financial systems of internal control are operating effectively but the Social Programme Management system will require significant improvements to support the delivery of the more complex benefits.
- 4 The Fraud and Error team must continue to develop its understanding of the associated risks of fraud and error within the range of benefits, including those still delivered by the DWP.
- 5 The 2021/22 budget has been set at £3.725 billion but recognises the level of demand uncertainty within the forecasted benefit streams.
- 6 Medium-term financial planning must continue to be revised to reflect emerging developments.
- 7 A long-term workforce plan, built on the current timetable for benefit delivery, must be developed and refined in parallel with benefit development by the Social Security Programme.

Governance, transparency and value for money

- 8 Social Security Scotland has effective governance arrangements and continues to demonstrate its commitment to openness and transparency.
- 9 Processes for determining residency for complex benefits are more robust. The guidance and training provided to staff will be critical in ensuring the fair and consistent application of residency criteria.
- 10 Good progress has been made in strengthening equalities arrangements including the production of an Equality Strategy.

Introduction

1. This report summarises the findings from our 2020/21 audit of Social Security Scotland. The scope of our audit was set out in our Annual Audit Plan issued to management and the Audit and Assurance Committee in March 2021 and formally considered at the meeting on 18 May 2021. This report comprises the findings from our audit of Social Security Scotland's annual report and accounts and consideration of the wider dimensions that frame the scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 have been:

- an audit of Social Security Scotland's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- a review of Social Security Scotland's key financial systems
- consideration of the four audit dimensions.

Adding value through the audit

3. We add value to Social Security Scotland through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

4. The Accountable Officer of 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.

5. The Accountable Officer of Social Security Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts.

7. Additionally, we conclude on the financial position and arrangements for securing financial sustainability, the suitability and effectiveness of corporate governance arrangements and the appropriateness and effectiveness of the performance management arrangements. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

8. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out recommendations, responsible officers and dates for implementation. It also includes actions from last year and the progress that has been made.

Arrangements for the delivery of benefits

10. 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.

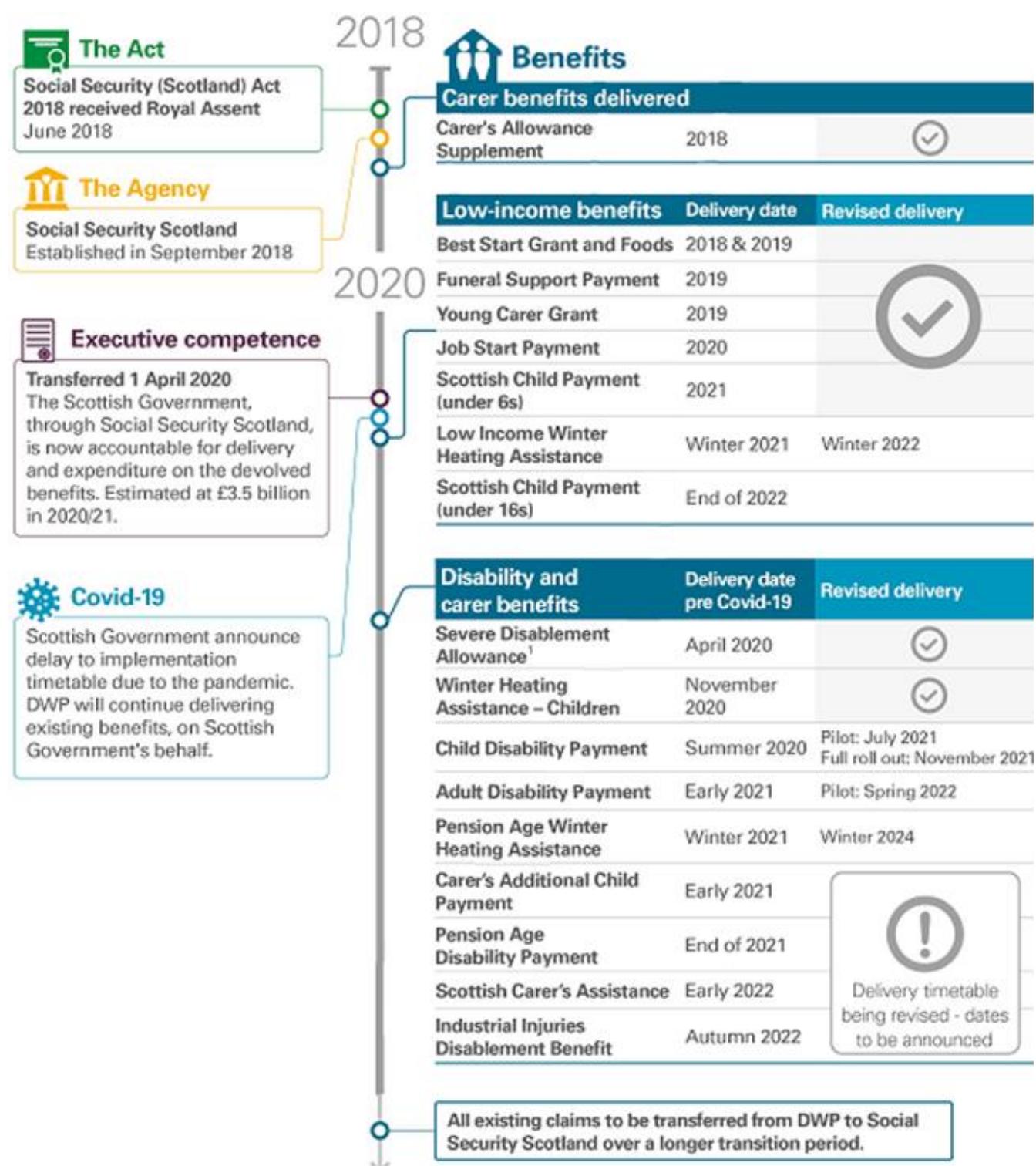
11. The programme is responsible for designing and implementing benefits and the supporting systems and processes needed to administer them. Social Security Scotland depends on the programme for the processes and digital systems it needs to deliver its part of the Scottish social security system in the way intended by the Scottish Government.

12. Legislative competency for the powers was devolved through the Scotland Act 2016, allowing the Scottish Government to develop the necessary legislation. The Scottish and UK Governments agreed a phased approach to the devolution of the social security powers to support a safe and secure transition with delivery split over two parts – firstly the one-off low-income benefits and secondly the more complex benefits.

13. Executive competence for the more complex carer's and disability benefits transferred on 1 April 2020. Executive competence refers to the point where administrative responsibility and financial accountability transfers to Social Security Scotland. This means that the 2020/21 financial statements are the first to report the expenditure for these devolved benefits.

14. [Exhibit 1](#) sets out the devolved benefits and arrangements the Scottish Government has delivered so far and its commitments for delivery of the remaining benefits.

Exhibit 1 Delivery of devolved benefits timeline



Note: 1. This benefit will continue to be delivered by the DWP on behalf of the Scottish Government.

Source: Audit Scotland, using data from the Scottish Government

Auditor Independence

15. Auditors appointed by the Accounts Commission or Auditor General must comply with the [Code of Audit Practice 2016](#) and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

16. 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 2020/21 audit fee of £404,390 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

17. This report is addressed to the body and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

We qualified our opinion on the regularity of expenditure and income because estimated overpayments in the benefits delivered by the DWP through agency agreements were material at £65.4 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

18. The annual report and accounts for the year ended 31 March 2021 were approved by the Accountable Officer on 22 October 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared.
- we qualified our opinion on the regularity of benefit expenditure delivered by the DWP totalling £3.262 billion as we consider the estimated level of overpayments attributable to fraud and error of £65.4 million to be material to our opinion on the accounts (see [paragraph 23-24](#)).
- all other expenditure and income was applied in accordance with applicable enactments and guidance issued by Scottish Ministers.
- the audited part of the staff and remuneration report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

19. 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.

20. The 2020/21 accounts of Social Security Scotland include benefit expenditure of £3.262 billion delivered by the DWP 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 DWP's annually published estimates.

21. The Covid-19 pandemic impacted on the DWP arrangements to complete the reviews to support the revised estimates. None of the benefits devolved to Social Security Scotland were reviewed in 2020/21 and therefore the rates estimated for 2019/20 have been rolled forward. We have reviewed these rates and concluded that they are relevant and appropriate for Scottish benefits paid in 2020/21. [Exhibit 2](#) outlines the estimated overpayment rates for the benefits that are delivered by the DWP, ranging from 1.5 to 5.2 per cent of expenditure.

Exhibit 2

Estimated levels of fraud and error overpayments in benefits delivered by the DWP

Benefit	Expenditure 2020/21	Overpayments estimate % (last reviewed)	Monetary value of overpayments
Personal Independence Payment (PIP)	£1,626m	1.5% (2019/20)	£24.4m
Disability Living Allowance (DLA)	£722m	1.9% (2004/05)	£13.7m
Attendance Allowance	£528m	1.9% (Never– DLA proxy)	£10.0m
Carer's Allowance	£296m	5.2% (2019/20)	£15.4m
Industrial Injuries Disablement Scheme	£83m	1.9% (Never– DLA proxy)	£1.6m
Severe Disablement Allowance	£7m	4.1% (ESA ¹ proxy)	£0.3m
Total	£3,262m	1.5% - 5.2%	£65.4m

1. Employment Support Allowance

Source: Audit Scotland using information from [Fraud and error in the benefits system: financial year 2020 to 2021 estimates](#)

22. The benefits delivered by the DWP 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.

23. We have qualified our regularity opinion as the estimated level of overpayments attributable to fraud and error in the benefits delivered by the DWP of £65.4 million is material. The expenditure resulting from such overpayments was not incurred in accordance with the relevant legislation and regulations.

24. 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 complies with the legislation, irrespective of whether the determination has been based on incorrect or fraudulent information. We recognise that Social Security Scotland is still developing its arrangements for identifying and managing the levels of fraud and error within the benefits they administer directly ([paragraph 59 to 64](#)).

The annual report and accounts were signed off in line with the planned timetable

25. As a result of the continuing impact of the Covid-19 pandemic, the Scottish Government extended the deadline for submission of central government audited annual report and accounts from 30 June 2021 to 31 August 2021. This mirrored the 2019/20 arrangements.

26. The unaudited annual report and accounts were received in line with our agreed audit timetable on 12 July 2021. The working papers provided to support the financial statements were of a good standard and the support received by the audit team from finance staff helped ensure the final accounts audit process ran smoothly.

Overall materiality was unchanged from planning and remained at £35 million

27. Our initial assessment of materiality was carried out during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate as summarised in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality level	Amount
Overall materiality	£35 million
Performance materiality	£21 million
Reporting threshold	£100,000

Source: Audit Scotland Annual Audit Plan 2020/21

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

28. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

Significant findings from the audit in accordance with ISA 260

29. Our audit approach for the 2020/21 financial statements included consideration of an audited financial summary prepared by the DWP. The financial summary captured all the transactions and balances for the benefit streams delivered by the DWP, on behalf of Social Security Scotland, during 2020/21.

30. We noted that two adjustments were made to the financial summary as part of the audit process to correct:

- a £3.7 million overstatement of wholly devolved benefit accruals; and
- a £7.1 million classification error in the split of impairments between less than and more than one year.

31. These did not impact on the audited financial statements for Social Security Scotland.

32. In addition to the above adjustments we note that there is also an extrapolated understatement of omitted debt within the financial summary of £310,000. Omitted debt is the debt the DWP has identified as being recoverable and referred to Debt Management, however the formal decision on recoverability has not yet been made. The accounting policies state that Social Security Scotland does not account for omitted or potential debt and therefore there is no impact on the audited financial statements. We note that part of the initial justification for this accounting policy was that a reliable estimate was not available for the devolved benefits. Social Security Scotland should therefore reflect on the continued appropriateness of this accounting policy.

33. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. These are summarised in [Exhibit 4](#).

Exhibit 4**Significant findings from the audit of financial statements**

Issue	Resolution
<p>1. Underlying fraud and error – benefits delivered by the DWP</p> <p>The 2020/21 financial statements include benefit expenditure of £3.262 billion delivered by the DWP under agency agreements with Scottish Ministers.</p> <p>As disclosed in Note 15 of the financial statements there are estimated overpayments of £65.4 million paid to Scottish residents. This is based on estimates by the DWP that overpayments, as a result of fraud and error in relation to each type of benefit, range between 1.5% and 5.2%.</p> <p>Overpayment as a result of fraud and error means the expenditure was not incurred in accordance with legislation specifying benefit entitlement.</p>	<p>We consider this level of overpayments to be material and have qualified our regularity opinion.</p>
<p>2. Summary performance appraisal in the annual report</p> <p>The performance report in the unaudited annual report and accounts provided good descriptions of performance activity but did not contain a clear summary performance appraisal detailing whether expectations had been met.</p>	<p>The audited annual report and accounts has been amended.</p> <p>We will continue to work with Social Security Scotland to support ongoing improvement of the narrative in the annual report.</p>
<p>3. Accrual of prior years' audit fee</p> <p>Audit testing identified the inclusion of accruals for the 2018/19 and 2019/20 external audit fees within the trade and other payables balance. As these relate to prior years these should not be included in the 2020/21 financial statements.</p> <p>As a result, the trade and other payables balance has been overstated by £266,285 with a corresponding overstatement of the general fund deficit.</p>	<p>Management have agreed a resolution with the Scottish Government but do not propose to make the adjustment in the 2020/21 financial statements.</p> <p>We are satisfied with management's decision.</p>

Source: Audit Scotland

Our audit approach did not need to be revised during the audit

34. During the audit of the financial summary a sample of benefit payments were substantively tested to ensure they were correctly accounted for. A manual payment of £10,000 for a Welsh customer was found to be incorrectly coded to Scottish benefit expenditure. Social Security Scotland has decided not to recover this amount from DWP. The potential error in the wider population has been assessed and estimated at £249,000. Based on this, management have agreed with the DWP that no settlement will take place.

35. Further, the impact of the accrual of prior year audit fees detailed in [Exhibit 4](#) is an overstatement in the Statement of Financial Position of the trade and other payables and general fund balances of £266,285. We reviewed the nature and cause of these misstatements and were satisfied that no revision to our audit approach was required.

36. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

Progress has been made on prior year recommendations although this was impacted by the Covid-19 pandemic

37. Social Security Scotland has made progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Main judgements

Social Security Scotland spent £44 million more than the revised 2020/21 budget due to the impact of the Covid-19 pandemic on the benefits delivered by the DWP.

Financial systems of internal control are operating effectively but the Social Programme Management (SPM) system requires significant improvements to support the delivery of the more complex benefits.

No formal arrangements are in place to prioritise and address the increasing technical backlog for the SPM system.

The Fraud and Error team is continuing to expand and it must further develop its understanding of the associated risks of fraud and error within the range of benefits being delivered, including those still delivered by the DWP.

The Covid-19 pandemic has had a significant impact on the delivery of benefits

38. Demand for social security support increased during the Covid-19 pandemic. The UK government introduced several measures to ensure benefit payments continued and to support the DWP staff in administering the claims, including:

- no new reviews or reassessments across all benefits for three months,
- the suspension of face-to-face assessments for disability benefits for three months, including new claims, and
- allowing temporary breaks in care and accepting emotional support for Carers Allowance.

39. The pandemic has resulted in higher levels of unemployment and reductions in working hours leading to exceptional demand for Universal Credit. By 7 April 2020 household claims had risen to over 110,000 from an average of 20,000 per month in 2019. Once a person claims Universal Credit they become entitled to other benefits such as Scottish Child Payment. This was expected to have significant implications for the Scottish budget but the impact has been smaller than anticipated as many of the new and devolved benefits relate to women and children rather than employment.

Social Security Scotland has appropriate financial reporting arrangements in place, however the 2020/21 budget was overspent due to the impact of Covid-19 on the benefits delivered by the DWP

40. 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.

41. As detailed at [Exhibit 1](#), Social Security Scotland took on executive competence for a number of benefits for 2020/21 as well as the introduction of Scottish Child Payment in February 2021. This resulted in benefit expenditure increasing from £346.7 million in 2019/20 to £3.361 billion in 2020/21.

42. Benefits expenditure is demand led and can therefore not be easily controlled. The Scottish Parliament sets its budget for benefit payments with reference to the forecasts prepared by the Scottish Fiscal Commission. The 2020/21 budget of £3.328 billion was overspent by £44 million. The overspend was primarily due to increased Disability Living Allowance (£31.4 million) and Personal Independence Payments (£43.3 million), offset by the underspend in Child Disability Payment (£24.2 million) and Scottish Child Payment (£5.2 million). The launch of Scottish Child Payment was delayed until February 2021 due to Covid-19.

43. The initial operating budget for 2020/21 was set at £186 million. As the year progressed, the impact of Covid-19 on budgeted plans resulted in significant projected underspends in both revenue and capital budgets. As part of the Summer and Spring Budget revisions, £55 million was returned to the Scottish Government for reallocation. The main causes of the underspend were:

- a reduction in staffing costs due to changes in recruitment plans (£20 million),
- lower than budgeted administration costs (£9 million),
- rebates on the VAT element of the DWP agency agreements (£22 million) and
- a decrease in capital expenditure due to delays in building refurbishment work (£5 million).

44. At the year-end, the reported outturn against the final revised operating budget of £142.9 million was £132.3 million, a further underspend of £10.6 million due to changes to recruitment plans and delays in building refurbishment work.

45. Financial reporting during the year predicted the underspend in operating expenditure and overspend in benefits delivered by the DWP, however the size of the overspend wasn't fully recognised until the year end. Social Security Scotland has appropriate budget setting and monitoring arrangements in place which supports sound decision-making and effective scrutiny.

46. The overall outturn position for Social Security Scotland is shown in [Exhibit 5](#).

Exhibit 5 Performance against budgets in 2020/21

	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Revenue		135.9	129.7	(6.2)
Capital		6.4	2.0	(4.4)
Depreciation		0.6	0.6	0
Total Operating Expenditure	186.4	142.9	132.3	(10.6)
Delivered by Social Security Scotland		128.6	97.3	(31.3)
Delivered by DWP through agency agreements		3,185.4	3,262.1	76.7
Benefit Overpayment Impairment (AME)		5.0	1.6	(3.4)
Total Benefit Expenditure	3,218.4	3,319	3,361	42.0
<i>Funeral Support Payment</i>	<i>10.2</i>	<i>9.2</i>	<i>11.2</i>	<i>2.0</i>
Total	3,228.6	3,328.2	3,372.2	44.0

Source: Social Security Scotland Annual Report and Accounts 2020-21

47. The Statement of Financial Position in the financial statements shows that Social Security Scotland has a net liability of £251.2 million at the year-end compared with a net asset of £1.4 million in the prior year. This has resulted primarily from an increase in the trade payables balance from £43.5 million to £333.4 million, offset by an increase in trade receivables of £23.5 million and cash and cash equivalents of £12 million. All of these movements relate to the accounting for the additional benefits that are now included in the financial statements.

Financial systems of internal control are operating effectively, but the delivery of the more complex benefits will require significant system improvements in the Social Programme Management (SPM) system

48. Our management report presented to the Audit and Assurance Committee on 18 May 2021 included our findings from the review of systems of internal control. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which would 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 2020/21 financial statements.

49. An Agile approach to systems development has been adopted, which has allowed systems to be built up over time. This means that the Scottish Government social security programme initially produces a minimum viable product (MVP) system. This contains the minimum required functionality required by Social Security Scotland for each benefit launch, with each release building on the functionality of previous benefits. As the system becomes operational, improvements and additional functionality needs are identified, resulting in changes to the system.

50. This approach requires a close working arrangement between the programme and Social Security Scotland, including ongoing feedback, to ensure that the system that is delivered is fit for purpose. If the system that is delivered does not have the required functionality it can impact on overall timescales as system changes are developed and implemented. To mitigate against this risk a generic baseline MVP is being created which will serve as the model for the release of new benefit types. This will be critical given the challenging timetable for the roll out of new benefits.

Recommendation 1

The establishment of a generic baseline MVP should be finalised as soon as possible to support the delivery of a robust core system for the roll out of new benefits.

No formal arrangements are in place to prioritise the increasing technical backlog for the SPM system

51. Technical backlog is a list of improvements, upgrades and cross cutting requirements for the SPM system. It represents the outstanding work needed to add key elements to a digital system and rework existing elements to address issues. Technical backlog can be either planned or unplanned and represents reduced functionality within the system which is currently replaced by manual workarounds increasing the risk of fraud and error.

52. Social Security Scotland is in the process of putting in place formal arrangements for dealing with the increasing technical backlog. This process must be robust and provide an audit trail on decision making for each item of technical backlog as well as quantifying the additional resource implications of any manual workarounds. Close working with the Scottish Government social security programme is needed to ensure that the system releases provide best value and improve functionality.

Recommendation 2

A structured approach should be introduced to address the increasing technical backlog and ensure a strong system control environment is in place to support fraud and error prevention and detection.

53. From 1 April 2021 the Scottish Government's Chief Digital Office moved to Social Security Scotland. While the Scottish Government social security programme retains responsibility for developing systems and processes, this additional capacity will enable Social Security Scotland to take a longer-term approach to IT planning, including tackling the increasing technical backlog.

Internal audit concluded that the controls are adequate but require improvement

54. The Social Security Scotland's internal audit function is carried out by the Scottish Government's Internal Audit Division. During 2020/21 16 reviews were complete, alongside a number of follow up reviews and advisory work. One of the reviews provided substantial assurance, ten provided reasonable assurance and five reported limited assurance.

55. The Public Sector Internal Audit Standards require the provision of an annual internal audit opinion to support the conclusions in the annual governance statement. The opinion provided in 2020/21 is that of "Reasonable" assurance, which means that some improvements are required to enhance the adequacy and effectiveness of controls.

56. We reviewed the internal audit function as part of our planning to determine the extent to which we could use their work in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). We concluded that we could rely on the work of internal audit where this would reduce our own audit testing or avoid duplication.

57. We had planned to place reliance on the internal audit review of the controls in place to verify residency criteria however the fieldwork for this review is yet to be completed. We consider all internal audit reports to support our understanding and inform our conclusions on the wider audit dimensions.

Arrangements are in place to help ensure appropriate standards of conduct are maintained

58. Social Security Scotland is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct. We have reviewed the arrangements in place including the Civil Service and Non-Executive Members' Codes of Conduct. There are established procedures in place for preventing and detecting any breaches of these standards.

Arrangements for the prevention, detection and measurement of fraud and error must be improved to support benefit delivery

59. Social Security Scotland is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. A Counter Fraud Strategy is in place which explains how the risk of fraud will be mitigated. An internal audit review on counter fraud governance in March 2021 reported a reasonable assurance opinion. This means that controls are adequate but require improvement.

60. Social Security Scotland currently rely on the DWP for the estimation of the level of fraud and error for benefits delivered through agency agreements. As there is an inherent risk of fraud and error within any social security system it is vital that Social Security Scotland continue to develop a strong understanding of the different benefit streams it administers and the associated risks of fraud and error within them.

61. During 2020/21 the staffing levels in the Fraud and Error team have increased to reflect the growth of the organisation. There has been a focus on developing the necessary skills including special fraud training with:

- one member of the team achieving Counter Fraud Specialist accreditation,
- four attaining accreditations as Counter Fraud Technicians, and
- seven attaining accredited Authorising Officer status enabling them to consider applications for conduct of directed surveillance operations as governed by the Regulation of Investigatory Powers (Scotland) Act 2000.

62. A Fraud Champion Network made up of around 60 staff members meets monthly to discuss examples of fraud and to drive best practice. This has proved to be a successful project as 209 cases have been reported to the Risk Analysis and Control Team enabling the prevention of 42 attempted frauds. Social Security Scotland is working well to implement fraud awareness training. In addition, work is underway to address future specialist recruitment shortages in Dundee by creating career paths through the two Dundee Universities.

63. However, the work of the Fraud and Error team has been impacted by the Covid-19 pandemic. During 2020/21 the focus has been on understanding how the move to remote working impacts on the fraud risks within the benefit system and working to understand the risks inherent within the DWP qualifying benefit caseload.

64. Data mining analysis continues to provide an insight into the high error risk cases within the benefits processed by Social Security Scotland. A working group has also been established to understand and develop responses to the error trends identified.

Recommendation 3

The Fraud and Error team must continue to develop its understanding of the associated risks of fraud and error within the range of benefits being delivered, including those currently delivered by the DWP.

65. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Social Security Scotland are currently planning for inclusion of claimant data in the NFI. Work is currently underway so that a pilot exercise can start in autumn 2021. Social Security Scotland will share claimant data, which can be matched with other data sets to identify a list of high-risk cases for further checking. The specific risk to be addressed in this first pilot will be false declaration of Scottish residency.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

The 2021/22 budget has been set at £3.725 billion but recognises the level of demand uncertainty within the forecasted benefit streams.

The introduction of new benefits continues with Scotland's Child Disability Payment due to roll out across the country in November 2021.

Medium-term financial planning must continue to be revised to reflect emerging developments.

A long-term workforce plan, built on the current timetable for benefit delivery, must be developed and refined in parallel with benefit development by the Social Security Programme.

The 2021/22 budget has been set at £3.725 billion

66. In January 2021 Social Security Scotland set the 2021/22 budget. At that time a number of risks and uncertainties were presented to the Executive Advisory Board and it was agreed that a mid-year budget revision would be undertaken. When completed this will reassess the planning assumptions with a focus on staff capacity and capability to ensure the budget adequately reflects the needs of delivering the benefit service.

67. The total 2021/22 budget of £3.725 billion includes £3.454 billion for benefit expenditure and £271 million for operational costs.

68. The budget for benefits expenditure is based on the forecasts of the Scottish Fiscal Commission who prepare an annual report on Scotland's economic and fiscal forecasts.

69. The difficulties in predicting demand, particularly for new benefits, means that this expenditure will always have an element of uncertainty. Social Security Scotland relies on the work of the Benefit Forecasting Review Group to review benefit expenditure on a monthly basis and assess the accuracy of forecasts. This group includes representatives from Social Security Scotland and the Scottish Government.

70. The operational budget of £271 million, including £22 million of capital spend, has much greater certainty with the majority assigned to staff costs (£125 million) and agency agreements with the DWP (£84 million). However recent reporting shows projected underspends on both revenue (£6.9 million) and capital (£2.7 million) due to delays in recruitment, IT and estates spend. The capacity to deliver the benefits service must continue to be balanced with the achievement on non-recurring savings due to vacancy management decisions to ensure the overall sustainability of the service.

Despite the impact of the Covid-19 pandemic the roll out of new benefits continues

71. We reported in our 2019/20 annual audit report that the Covid-19 pandemic had a significant impact on the Scottish Government social security programme with the final impact still to be determined. Social Security Scotland is reliant on the Scottish Government for setting out the timeline for new benefits and the processes to administer them.

72. As a result of the refreshed business case published by the Scottish Government social security programme in February 2020, revised cost estimates for both implementation activity and the operating costs for Social Security Scotland were prepared. We previously highlighted the need for Social Security Scotland to work with the Scottish Government and the DWP to ensure that delivery and financial plans are revised to take account of the launch of future benefits.

73. Scottish Child Payment opened for applications for children under six in November 2020 with payments starting in February 2021. This is the most significant example of the Scottish Government using its power to create new benefits and is a key element of the plan to tackle child poverty.

74. The next significant benefit will be Scotland's Child Disability Payment which, following a pilot in the summer, will be rolled out across the country in November 2021. This benefit replaces the UK Government's Disability Living Allowance for children and will be the first of the complex disability benefits which are planned to be introduced by the Scottish Government.

75. This benefit will be the first disability benefit in the UK that can be applied for online, as well as by post, phone, or face to face. The pilot project found that more than 85 per cent of applications were received online in the first six weeks of Child Disability Payment being launched. Learning and improvement opportunities can be gained from previous benefit roll outs and applied in the future.

76. Social Security Scotland will carry out detailed analysis and monitoring of the operation of the Child Disability Payment. This will be used as an opportunity to develop and improve service design for future disability benefits.

Social Security Scotland's medium-term financial plan should be revised to reflect the impact of the Covid-19 pandemic

77. We have previously reported the importance of longer-term planning given the future growth expected as more benefits are delivered by Social Security Scotland.

78. Social Security Scotland published its 2021/22 business plan in July 2021. Priorities are set around the objectives in the three-year Corporate Plan 2020-2023 and includes the ways Social Security Scotland plan to measure its performance.

79. Recent benefit expenditure forecasts by the Scottish Fiscal Commission included the first estimate of spending on the Adult Disability Payment which will replace the Personal Independence Payment from summer 2022. They predict that by 2026/27 Adult Disability Payment will cost an additional £529 million with approximately 70,000 more clients than the Personal Independent Payment equivalent. Social Security Scotland needs robust planning to ensure it can meet the extra forecasted demand that this will put on the service.

80. In September 2020 Social Security Scotland signed a 20-year lease on premises in Dundee to become its headquarters. The capital budget for 2021/22 includes £14.9 million for the estates implementation programme, however delivery has been impacted by the Covid-19 pandemic.

81. The financial impact of the pandemic on Social Security Scotland is likely to extend across several years. As the organisation continues to expand, while responding to the changes that the Covid-19 pandemic has meant for working arrangements, there is a need to continue to revise key plans to ensure they will meet the medium to long term requirements of a larger workforce. This will give an opportunity to reflect on the impact of Covid-19 on the underlying cost base and benefit delivery arrangements.

Recommendation 4

Social Security Scotland must continue to revise its financial planning to reflect the long-term impact of the Covid-19 pandemic on benefit delivery arrangements and underlying costs.

Longer-term workforce planning is still developing

82. The required workforce for Social Security Scotland was initially set out in the Outline Business Case as a range of staffing estimates – reference has always been to a number of at least 1,900 Full time Equivalents (FTE). This only covered operational staff and did not include the staff required for support functions. It also did not include staff required to deal with assessments. Further it did not cover Scottish Child Payment and any other changes to the way in which new or devolved benefits would be administered. Social Security Scotland's most recent update estimates a requirement for at least 3,500 FTE.

83. Social Security Scotland identified the risks relating to staffing capacity and capability and in February 2021 a workforce planning team was established to define and implement a Workforce Strategy. Although work has started, this has not yet been finalised. This strategy must cover medium to longer term resourcing needs considering both workforce numbers as well as the skillsets required to meet the needs of the more complex benefits as they launch. A particular challenge will be the need to recruit diverse clinical teams, including health professionals and those with social work experience, to administer the complex disability benefits.

84. The impact of Covid-19 saw the Local Delivery Service delayed. Staff recruited to carry out Local Delivery roles were redeployed within Social Security Scotland to help in a more operational capacity. As the Local Delivery Service will be launched nationally in November 2021, Social Security Scotland needs to ensure there are adequate staff in each location. This will help to ensure that clients across the country have access to the same level of service.

Recommendation 5

A long-term workforce plan, built on the current timetable for benefit delivery, must be developed and refined in parallel with benefit development by the Social Security Programme.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Social Security Scotland has effective governance arrangements and continues to demonstrate its commitment to openness and transparency.

Processes for determining residency for complex benefits are more robust. Guidance and staff training will be critical in ensuring the fair and consistent application of residency criteria.

Performance management arrangements must continue to be developed to support robust decision making.

The governance arrangements throughout the Covid-19 pandemic have been appropriate and continue to be strengthened

85. The impact of the Covid-19 pandemic, and Social Security Scotland's response to it, has been set out in the performance report in the annual report and accounts.

86. In January 2021, Social Security Scotland began an internal governance review. This review is ongoing and has identified several actions including the need to strengthen the role and remit of the Agency Leadership Team, update the Framework document and improve the arrangements for succession planning for Non-Executive Members to the Executive Advisory Body.

87. During the year Social Security Scotland implemented some changes including:

- staggering the dates when Non-Executive Members finish their appointments,
- changing the chair of the Executive Advisory Board to a non-executive member to enable the Chief Executive to participate more actively,
- revising the membership of the Social Security Programme Board to include a non-executive member of the Executive Advisory Body, and

- new terms of reference and membership for the Agency Leadership Team.

88. Although relatively new, the changes are designed to improve scrutiny and decision-making and ensure wider engagement and involvement. Our audit work has confirmed that Social Security Scotland has appropriate governance arrangements in place.

Social Security Scotland continues to demonstrate its commitment to openness and transparency

89. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about decision making and the use of resources such as money, people and assets.

90. Social Security Scotland has increased transparency over the past year by including Board minutes, papers and agendas on its website with redactions to documents only made when deemed necessary. The register of interests is also now publicly available.

91. As part of Social Security Scotland's Procurement Strategy, one of the objectives is to gain people's trust by being open and honest. This objective includes measures such as developing the corporate website, publishing awarded and future contracts on Public Contracts Scotland and publishing details of contracts awarded in a yearly procurement report.

Progress has been made in developing an appropriate risk management framework

92. Social Security Scotland commissioned EY to assess the current approach to risk management and to help develop future risk management processes which will be required as the organisation grows. EY concluded that good progress had been made in implementing the foundations of a robust risk management framework, in a short period of time.

93. The report noted that in the future the existing risk team should be strengthened to support the development of a risk framework in the medium to long term. We note that steps have already been taken to improve risk documentation including development of the risk registers and the production of heat maps.

Residency checks for new benefits need to be more robust

94. Social Security Scotland continues to rely on postcode checks as a determinant of residency for low-income benefits and staff training covers the terms of ordinary and habitual residence. For the next tranche of benefits there will be different criteria for determining residency which will be contained within the regulations for each new benefit. Staff will require tailored training and guidance on residency requirements.

95. As an example, for Child Disability Payment the past/presence rule will apply which means that the client must have been in the 'common travel area' (the UK, Ireland, Channel Islands and Isle of Man) for 26 of the last 52 weeks (13 weeks for children aged under six months) and not be a 'person subject to immigration control'.

96. This rule is more robust than the current requirements and provides a stricter basis for assessment. Learning materials have been developed which includes guidance covering the regulations. Training is being provided as part of the learning routeways for the Child Disability Payment pilot. This pilot is soon to be completed with full launch due to take place in November 2021. A further review will be required next year as this and new benefits are launched.

Recommendation 6

The new residency rules for future benefits will be more complex. The guidance needs to be applied by staff to ensure the residency criteria is applied in a consistent and fair manner.

Performance work is progressing but needs further development to ensure meaningful assessment

97. In addition to the audit opinion on Social Security Scotland's performance report we also consider the overall clarity of message to identify areas for improvement. The performance report should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of performance as well as helping stakeholders understand the financial statements. It should be supported by a strong performance management system which support internal decision making.

98. The disclosures within the performance report are linked to the themes within the three-year Corporate Plan 2020 - 2023. It provides good descriptions of performance activity but the performance appraisal should be kept under review to identify areas for improvement, particularly in relation to the establishment of appropriate performance targets and more detailed trend information as this becomes available.

99. During 2020/21 Social Security Scotland has made progress in establishing a performance management system. The Charter Measurement Framework is being adopted as the key measurement tool for annual performance reporting. This framework captures the Charter commitments and gathers data from clients and stakeholders however the current arrangements need to be refined and strengthened to make a transparent and meaningful assessment of performance for stakeholders.

Recommendation 7

Robust and transparent performance management arrangements should be further developed to support decision making.

5. Value for money

Using resources effectively and continually improving services

Main judgements

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

Good progress has been made in strengthening equalities arrangements including the production of an Equality Strategy.

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

100. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) 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.

101. The interim corporate plan was replaced in December 2020 with the three-year Corporate Plan 2020 - 2023. 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 service in a responsible way.

102. The Covid-19 pandemic impacted on Social Security Scotland's plans to develop its annual planning during 2019/20. As a result, a Business Plan for 2020/21 was not prepared.

103. The 2021 - 2022 Business Plan was published in July 2021. Priorities are set around the above three themes with key milestones and plans to measure performance also highlighted.

Good progress has been made in strengthening equalities arrangements including the production of an Equality Strategy

104. One of Social Security Scotland's key themes in its Corporate Plan is helping to deliver a social security system with dignity, fairness and respect. The objectives aligned to this theme will help ensure that they are delivering on their responsibilities as set out in the Equality Act 2010 and the Social Security Act (Scotland) 2018.

105. Social Security Scotland has established three equality outcomes to describe the actions they will take to meet their equality duties as both an employer and a service provider. A public consultation exercise was carried out during 2019/20 to gather feedback on the draft outcomes. This process helped to inform the Equality Strategy which was published on Social Security Scotland's website in June 2021.

106. The Equality Strategy includes an action plan on how the three outcomes will be achieved and how equalities will be mainstreamed across the organisation. An Internal Equality Network has been established to co-ordinate and monitor progress against this plan.

107. The outcomes are based on information about the workforce and clients and on evidence from equality impact assessments. As Social Security Scotland is a relatively new organisation, historical data on which to set and measure outcomes is limited. Work is underway to gather more equalities data as the organisation expands and delivers more benefits, for example, all clients applying for benefits are asked to complete an Equality Monitoring and Feedback form. This data will provide valuable information on who is using the service and how the process is working for them. The strategy and outcomes will be refreshed based on this data.

108. Social Security Scotland also published its People Plan in March 2021 and this details further action to improve on equality and diversity.

109. In July 2021, Social Security Scotland published its Corporate Procurement Strategy. Part of this strategy includes awarding contracts to supported businesses who offer opportunities to people with disabilities. A recent contract for the supply of office furniture has been awarded on this basis.

National performance audit reports

110. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of interest. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. SPM system may not be appropriate for the more complex benefits</p> <p>The use of an MVP approach means that the initial system that is delivered may not contain all of the required functionality. As the benefits being delivered increase in complexity the need for system controls increases.</p> <p><i>There is a risk that the MVP is not delivering the minimal functionality to support the Scottish social security system.</i></p>	<p>The establishment of a generic baseline MVP should be finalised as soon as possible to support the delivery of a robust core system for the roll out of new benefits.</p> <p>Paragraph 50.</p>	<p>Social Security Scotland has developed a draft of a generic MVP document and will work to baseline this with Social Security Programme.</p> <p>Chief Architect/Organisation Culture and Strategic Relationships Lead</p> <p>June 2022</p>
<p>2. The technical backlog continues to increase</p> <p>The extent of the technical backlog continues to increase impacting on system functionality and the arrangements for fraud and error.</p> <p><i>There is a risk that the system functionality is adversely impacted from the reliance on manual work arounds particularly as the more complex benefits become operational.</i></p>	<p>A structured approach should be introduced to address the increasing technical backlog and ensure a strong system control environment is in place to support fraud and error prevention and detection.</p> <p>Paragraph 52.</p>	<p>This will need to be undertaken in conjunction with Programme.</p> <p>The iterative approach to delivery adopted by the Programme allows for the continual improvement and resolution of defects. When a product reaches maturity it is presented to Social Security Scotland for acceptance, this process will include identifying existing defects contained within the backlog alongside any undelivered User Stories. As part of acceptance we have developed, and are continually improving, the</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>formal process of transition, our goal is to have robust acceptance criteria alongside visibility of the scale and value of any existing backlog. In parallel we are building more capacity within the live service team to address the technical backlog i.e. defects or continuous improvements via short frequent releases.</p> <p>Head of Service Management & Service Development/Head of Technologies and Platforms</p> <p>Ongoing</p>
<p>3. Fraud and error arrangements</p> <p>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 DWP for many fraud and error estimates as well as developing its own arrangements for the benefits being delivered directly.</p> <p><i>There is a risk that fraud and error arrangements are not sufficiently developed in advance of the launch of disability and carer's benefits.</i></p>	<p>The Fraud and Error team must develop its understanding of the associated risks of fraud and error within the range of benefits being delivered, including those currently delivered by the DWP.</p> <p>Paragraph 63.</p>	<p>Agreed. We have continued to strengthen arrangements over the past year and will mature these arrangements in future.</p> <p>Head of Fraud and Error Resolution</p> <p>Ongoing</p>
<p>4. Financial planning</p> <p>The financial impact of the pandemic on Social Security Scotland will extend across several years and the impact is not yet fully understood and reflected in the financial planning.</p> <p><i>There is a risk that without robust long-term financial plans Social Security Scotland may not adequately</i></p>	<p>Social Security Scotland must revise its financial planning to reflect the long-term impact of the Covid-19 pandemic on benefit delivery arrangements and underlying costs.</p> <p>Paragraph 81.</p>	<p>Agreed. Current plans take the known impact into account and plans will be revised for any changes to our ways of working as well as changes in benefit delivery timetabling.</p> <p>Head of Finance</p> <p>Ongoing</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><i>capture the underlying cost implications of decisions.</i></p>		
<p>5. Workforce planning</p> <p>The Workforce Strategy has not yet been finalised and should cover both numbers and skillsets to meet the needs of the more complex benefits.</p> <p><i>There is a risk that without a long-term workforce plan Social Security Scotland will not be able to deliver future benefits to the current timetable.</i></p>	<p>A long-term workforce plan, built on the current timetable for benefit delivery, must now be prepared. This should support wider decision making to ensure that there is a sustainable workforce to deliver the Scottish social security system.</p> <p>Paragraph 83.</p>	<p>Agreed. We intend to develop further our current thinking on our medium / long term Workforce Planning Strategy aligned with a Resourcing Strategy.</p> <p>Head of Corporate Services</p> <p>Ongoing</p>
<p>6. Residency</p> <p>Social Security Scotland are implementing new tailored guidance for each new benefit. The guidance will be complex, and staff will need adequate training.</p> <p><i>There is a risk that guidance and training for residency status for upcoming benefits will not be robust enough.</i></p>	<p>The new residency rules for future benefits will be more complex. Guidance needs to be correctly applied by staff to ensure that residency criteria is assessed fairly and consistently.</p> <p>Paragraph 94.</p>	<p>Agreed. We continue to work closely with colleagues in Social Security Directorate and within Learning and Development to ensure complex processes are understood and the importance of guidance emphasised. Work on Quality Assurance will support this going forward.</p> <p>Head of Client Services Operations</p> <p>Ongoing</p>
<p>7. Performance Management</p> <p>Performance management arrangements are not adequately developed to support robust decision making.</p> <p><i>There is a risk that Social Security Scotland will not be able to demonstrate value for money.</i></p>	<p>Robust and transparent performance management arrangements should be further developed to support decision making and ensure the delivery of a quality benefits service.</p> <p>Paragraph 99.</p>	<p>Agreed. Current plans in respect of business planning, reporting and governance improvement will build much closer links between performance management and decision making for future cycles.</p> <p>Head of Corporate Strategy and Communications</p> <p>Ongoing</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Measuring error and fraud	Social Security Scotland should continue to develop its approach to measuring error and fraud and engage with the DWP to understand and plan for the impact of changes in the measurement of error and fraud estimates.	<p>In Progress</p> <p>Due to Covid-19 limited progress was made on measuring fraud and error. Social Security Scotland is now engaging with the DWP and Northern Ireland to develop models for estimating fraud and error, however this is at an early stage.</p> <p>See Recommendation 3 on fraud and error arrangements.</p>
b/f 2. Long-term planning	Longer-term planning should continue to be developed and implemented in key areas such as finance, workforce, estates and IT.	<p>In Progress</p> <p>The Covid-19 pandemic has impacted but progress has been made.</p> <p>See Recommendation 4 on financial planning and Recommendation 5 on workforce planning.</p>
b/f 3. Delivery and financial plans	Social Security Scotland needs to work with the Scottish Government, its social security programme and DWP to ensure its operational needs and capacity are reflected in revised delivery and financial plans for Disability and Carer's benefits.	<p>Complete</p> <p>A revised delivery timetable has been prepared by Social Security Scotland and they are working closely with the Scottish Government to ensure delivery.</p>
b/f 4. Improvement of Digital Systems	Social Security Scotland should work on ensuring the MVP meets their needs and is fully tested. Consideration should also be given to reducing technical backlog, especially in areas where manual workarounds are needed.	<p>In Progress</p> <p>As part of the agile process, there are continual updates to what constitutes the MVP.</p> <p>The technical backlog remains a concern.</p> <p>See Recommendation 1 on SPM controls and Recommendation 2 on technical backlog.</p>

Issue/risk	Recommendation	Agreed management action/timing
b/f 5. Performance reporting	Performance reporting needs to be further developed and implemented to support the assessment and scrutiny of performance by stakeholders.	<p>In Progress</p> <p>There have been improvements to the performance report in the 2020/21 annual report and accounts but wider performance management arrangements are still being developed.</p> <p>See Recommendation 7 on performance management.</p>
b/f 6. Residency	Processes for determining the residency of applicants should be reviewed. All risks arising from the approach should be identified and understood.	<p>In Progress</p> <p>Use of postcode as the determinant of residency has continued to be used by Social Security Scotland. This is adequate for current benefits however more robust rules are required by newer benefits.</p> <p>See Recommendation 6 on residency.</p>
b/f 7. Preventing Error and fraud	Social Security Scotland needs to fully understand any risks arising from the evidence standards it applies, and not yet being able to undertake investigation activity in the way it planned. This will become increasingly important as more complex benefits begin to be delivered in future years.	<p>Complete</p> <p>Social Security Scotland now has the powers to undertake investigation activity.</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls to change the financial statements disclosures.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries, including specific analysis of the classification between Social Security Scotland and the Scottish Government. • Assessed the appropriateness of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of any significant transactions that are outside the normal course of business. 	<p>Results: We undertook detailed testing of journal entries, accruals, prepayments, and invoices. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p>
<p>2. Risk of material misstatement caused by fraud in benefit expenditure</p> <p>Practice Note 10 extends the requirements of ISA 240 to include the 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. Given the new benefit</p>	<ul style="list-style-type: none"> • Assessed the appropriateness of the Social Programme Management (SPM) system and the controls in place. • Detailed substantive testing focused on more complex, higher risk areas such as benefit payments including the completion of 'agreed upon procedures' on our behalf. 	<p>Results: We reviewed the controls in place and undertook detailed testing of benefit payments. We have reviewed and assessed the revised fraud and error rates for the DWP administered benefits. This provides an estimated error of £65.4 million for Scottish residents.</p> <p>Conclusion: We have qualified our regularity opinion for benefit</p>

Audit risk	Assurance procedure	Results and conclusions
<p>streams that were devolved from 1 April 2020, the 2020/21 financial statements will include an additional £3 billion of expenditure.</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"> Review the published estimates for error and fraud levels and considered the appropriateness for Social Security Scotland. 	<p>expenditure delivered by the DWP.</p>
<p>3. Risk of insufficient evidence to support DWP arrangements</p> <p>As most of the benefit expenditure for 2020/21 will be processed by the DWP there is a risk that insufficient assurances are obtained to cover the associated expenditure and balances. Although work is underway to establish an agreed audit approach, we recognise the risks that exist due to the complex arrangements involved.</p>	<ul style="list-style-type: none"> Assess the appropriateness of the financial reporting arrangement between the DWP and Social Security Scotland. Consider the impact of the audit opinion on our audit assurances. Assess the results of the 'agreed upon procedures' on our behalf. 	<p>Results: The auditor issued an unqualified opinion on the 2020/21 devolved benefits financial summary, without modification in respect of the true and fair view.</p> <p>No material exceptions were noted from the work completed on our behalf.</p> <p>Conclusion: Sufficient assurance has been obtained.</p>
<p>4. Risk of insufficient control environment to support the preparation of the annual accounts</p> <p>As an agency of the Scottish Government, Social Security Scotland relies on the underlying systems for expenditure areas such as payroll. It is also dependent on the Scottish Government for the development of the Social Programme Management (SPM) system which processes payments such as Scottish Child Payment, Best Start Grants and Funeral Support Payment. As the system is</p>	<ul style="list-style-type: none"> Assess the appropriateness of the SPM system and the controls in place (both in-built and manual). Focused substantive testing on benefit payments delivered by Social Security Scotland. Reliance on the work carried out by the Scottish Government audit team on the core Scottish Government systems used by Social Security Scotland. 	<p>Results: No significant issues were identified from our audit work on the SPM system, testing of benefit payments or the work of the Scottish Government audit team.</p> <p>Conclusion: The control environment supports the preparation of the accounts.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>delivered on a Minimum Viable Product (MVP) basis there is a need for ongoing development and improvement of controls. There is a risk that homeworking has had an impact on the operation of the overall control environment.</p>		

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

Audit risk	Assurance procedure	Results and conclusions
<p>5. Progress on error and fraud measurement arrangements</p> <p>The estimation and measurement of error and fraud within the benefit streams processed by Social Security Scotland is an important area. We recognise that the Covid-19 pandemic initially impacted on progress, but this must now be prioritised to develop arrangements before the more complex benefits are introduced later in 2021.</p>	<ul style="list-style-type: none"> Review updated documentation and reporting on the measurement of error and fraud within the benefit streams. Assess the appropriateness of progress and adequacy of arrangements. 	<p>Results: Due to Covid-19, many elements of fraud and error were paused. Work has restarted with Social Security Scotland now looking at the models of estimation used by the DWP and Northern Ireland. This will allow them to progress their development of estimation models.</p> <p>Conclusion: We will continue to review progress as part of our 2021/22 audit.</p>
<p>6. Adequacy of performance management arrangements</p> <p>A robust performance management system needs to be developed to enable Social Security Scotland to evidence its performance. This should be underpinned by a robust and transparent measurement framework which are understood by all stakeholders.</p>	<ul style="list-style-type: none"> Ongoing engagement with Strategy, Policy and Assurance lead on progress. Review the development of performance managements arrangements as they are being established. Assess progress in developing risk management arrangements, including risk registers. 	<p>Results: Social Security Scotland uses the Charter Measurement Framework as its key measurement tool for reporting performance.</p> <p>Steps have been taken to improve risk management and create a robust system.</p> <p>Conclusion: Work on performance management arrangements has progressed, but we will continue to review progress as part of our 2021/22 audit.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>7. Postcode being used to determine residency</p> <p>Social Security Scotland continues to use postcode as the determinant of residency. There is a risk that residency status is not being appropriately assessed, particularly as the new disability benefits are launched.</p>	<ul style="list-style-type: none"> Assess the controls and processes in place in relation to establishing residency. 	<p>Results: Social Security Scotland continues to use postcode as the determinant of residency but has plans in place to provide further guidance for more complex benefits.</p> <p>Conclusion: We will review the guidance developed as part of our 2021/22 audit work.</p>
<p>8. Control environment pace of change</p> <p>A number of improvements have been identified for the control environment within the SPM system with a focus on preventing and detecting error and fraud. A cross-cutting route to delivering the required control changes is currently underway, however there is a risk that the pace at which the changes are made is not sufficient, with the first changes not expected until July 2021.</p>	<ul style="list-style-type: none"> Review the work of the team that is looking at the internal controls environment to assess the pace of change. Assess the work that is being completed on the backlog of additional internal controls required to the SPM. 	<p>Results: Technical backlog continues to increase which results in the need for manual work arounds. Functionality is also impacted by the tight timescales available to introduce enhancements. The MVP may not meet the initial requirement of Social Security Scotland.</p> <p>Conclusion: We will review the MVP arrangements and technical backlog as part of our 2021/22 audit work.</p>

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Social Security Scotland

2020/21 Annual Audit Report

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