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Directorate for Internal Audit and Assurance

Internal Audit Report

Social Security Scotland 2021-22

Residency

Directorate for Internal Audit and Assurance

Issue Date: 9-03-2022

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Internal Audit Business Support Hub*	[redacted]

* Final Report only

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1. Introduction

1.1. Introduction

This internal audit review forms parts of our planned audit coverage agreed by the Accountable Officer and noted by the Audit and Assurance Committee on 09 February 2021.

Unless you are a client who is applying for an exportable benefit from abroad, in order to be eligible for benefits administered by Social Security Scotland, you must live in Scotland. As part of the determination process for any benefit, an assessment to confirm the applicants ordinary residency status must be undertaken, to confirm that they meet this element of the eligibility criteria. As such it is essential that Social Security Scotland have robust controls in place to assess and verify an applicant's residency status. This includes assessment for any new claims as well as for ongoing claims maintenance and change of circumstances.

1.2. Audit Scope

To evaluate and report on the controls in place to manage the risks surrounding Social Security Scotland's arrangements for assessing and verifying the residency of all applicants and recipients of Scottish social security benefits.

This review assessed the controls in place to verify and ensure currency of residency of claimants to ensure benefits are only paid to individuals who are Scottish residents. This included consideration of how statute in relation to this has been interpreted and the actions being taken by Social Security Scotland to verify the residency of each applicant. We also considered arrangements for change of address and ensuring any move outwith Scotland can be identified and appropriate action taken in relation to payment of benefits to minimise the occurrence of over/under payments.

The agreed Terms of Reference for this review is attached at [Annex B](#).

1.3. Assurance and Recommendations

Assurance Category	Reasonable		
Recommendations Priority	High	Medium	Low
	0	2	0

Our review has identified two medium priority recommendations. A reasonable assurance rating has been provided. Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.

Whilst we are providing reasonable assurance, due to there being clear guidance and processes for staff to follow to assess an applicant's residency eligibility, we do have concerns around potential weaknesses in the controls in place in relation to the validity of the evidence against which Social Security Scotland place reliance, which could increase the risk that benefits may be paid to individuals who are not ordinarily resident in Scotland.

Findings are summarised against recommendations made in the [Management Action Plan](#).

Full details of our findings, good practice and improvement opportunities can be found [in section 3 below](#).

Please see [Annex A](#) for the standard explanation of our assurance levels and recommendation priorities.

2. Management Action Plan

2.1. Management Action Plan

Our findings are set out in the Management Action Plan below

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
1	<p><u>Potential Reliance on Unverified Information</u></p> <p>Issue: Social Security Scotland may be verifying applicants addresses against information which may not have been verified and therefore may not be correct.</p> <p>Risk: Increased risk that Social Security Scotland lack understanding of the degree to which addresses are verified by other government departments, and a lack of appropriate recognition of transferred risk associated as a result of this.</p>	<p>Social Security Scotland should seek to obtain official confirmation of the processes used to verify data on which Social Security Scotland then places reliance.</p> <p>Based on the outcome of this Social Security Scotland should assess the risk this poses to the organisation, and where appropriate ensure action is taken to minimise the risk that benefits are paid to those who are not eligible on the basis of ordinary residency.</p>	M	<p>Response:</p> <p>Action: Social Security Scotland and Social Security Directorate will investigate this and seek official confirmation from our stakeholder and share this with Internal Audit. However, the evidence used was informal and unsubstantiated, therefore we are concerned that the risk is disproportionate given the lack of clarity.</p>	01/06/2022

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
				Action Owner: [redacted] Product Owner	
2	<p><u>Automated Returned Mail</u></p> <p>Issue: The contractor which processes automated mail generates a report which records all returned mail and this report is then available to Social Security Scotland. [redacted]</p> <p>Risk: There is an increased risk that benefits may be paid to those who are not eligible on the basis of residency.</p>	Management should ensure that effective and efficient processes are put in place for reviewing the returned mail report and taking appropriate action to verify clients addresses and ensure benefits are only paid to those who are eligible.	M	<p>Response: Currently guidance in relation to returned mail is not consistent [redacted] . Therefore the recommendation that, effective and efficient processes be adopted to help ensure that benefits are only paid to those eligible, is accepted.</p> <p>Action: There is currently work being undertaken by the Head of Operations in Dundee to review the mailroom operations and consider future requirements. In order to consider the recommendation this group will be</p>	March 2022

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
				<p>widened to include additional stakeholders. An initial meeting will be arrange to establish next steps.</p> <p>Guidance, process and resource will be consider as part of this review and identify opportunities to improve will be implemented. This will include effective processes for checking returned mail and taking appropriate action to verify clients addresses.</p> <p>Action Owner: [redacted] Head of Operations Dundee</p>	<p>January 2023</p>

3. Findings, Good Practice and Improvement Opportunities

3.1. Good Practice

Policies, Procedures, Guidance and Training

3.1.1. A range of guidance is available on Social Security Scotland’s Internal Knowledge Management Hub in relation to residency and the checks that should be undertaken in order to verify an applicant’s residency eligibility. Work was ongoing at the time of our fieldwork to review and update guidance for Low Income Benefits.

3.1.2. [redacted] .

3.1.3. Of the guidance viewed we were able to confirm that it made reference to relevant legislation and was aligned with this in relation to residence and presence.

3.1.4. Training is in place to ensure colleagues are aware of the correct processes to follow in relation to assessing an applicant’s residency eligibility. At the time of our fieldwork this was undergoing review, however residency and the process for administering checks on this were not seen as an area of weakness needing remedial action to be taken to strengthen staff knowledge of the processes.

Processes and Controls

3.1.5. For new applications, where there is an address mismatch between that recorded in SPM (Social Programme Management, Social Security Scotland’s Client Management System) and the address in Searchlight (a software application platform used by Social Security Scotland to view the Department for Work and Pensions (DWP) Client Information System (CIS) content which is informed by the Department for Work and Pensions, HM Revenue and Customs and Local Authorities) the Client Advisor will seek evidence from the client to verify their address. There is a process map which sets out clearly what evidence is acceptable.

- 3.1.6. A process map for processing change of address was shared which covered the process for a client submitting their change request, the checks undertaken by Client Advisors, including steps for obtaining proof of address if the new address does not match Searchlight.
- 3.1.7. Social Security Scotland's Mailroom teams have defined processes for dealing with any returned mail which they have sent. This includes a check of SPM to verify the address on the mail matches that in SPM. Where the address does not match a task will be set for the Client Advisor to highlight the issue and request that the Client Advisor contacts the client to verify the correct address details.

3.2. Improvement Opportunities

Potential Reliance on Unverified Information

- 3.2.1. [redacted] .
- 3.2.2. [redacted] .
- 3.2.3. This is an area of known risk as there was a Scottish Child Payment Options Paper in October 2019 where colleagues from the Social Security Scotland Fraud and Error Resolution Unit highlighted [redacted] . At this time the preferred option was to request evidence of ordinary residence from applicant's who have lived outside of Scotland in the last six months, and whose address Client Advisors have been unable to verify through Equifax (a Credit Referencing Agency). This paper was considered at the Business Design Authority (now the Design Authority board) and led to additional processes being established, where the client is showing as being at the current address less than six months.
- 3.2.4. It was noted that the current method is a tactical solution and Social Security Directorate are looking to establish the strategic solution for establishing whether residency eligibility conditions are satisfied which would remove the current reliance on the current Data Sharing Agreement.
- 3.2.5. Whilst some action has been taken in relation to this, it is important to highlight that some risk does still exist and could lead to Social Security Scotland benefits

being paid to recipients who do not meet the eligibility on the basis of ordinary residence. ([Please see recommendation 1](#))

Automated Returned Mail

- 3.2.6. A contractor processes automated mail, such as benefit award and denial letters, issued by Social Security Scotland. From our review we identified that where this mail is returned, it will be returned directly to the Contractor and not Social Security Scotland. The Contractor then generates a report which records all returned mail and this report is available to Social Security Scotland. [redacted] . Whilst it is understood mail can be returned for various reasons, it could be an indication that the individual does not live at the address given. With no action being taken in relation to this, there is an increased risk that benefits may be paid to those who are not eligible on the basis of residency. ([Please see recommendation 2](#))

Delays in receiving change of address evidence

- 3.2.7. Where a change of address is requested by a client and the initial checks result in there being no match, similar to initial applications the client will be asked to provide proof of their new address. This can be provided either online through the document uploader or by post. Benefit payments will not cease whilst this evidence is outstanding. If there is a delay in receiving the requested evidence a call will be made to the client to chase and if this continues action will be taken to escalate this if there is still no response. It was advised that beyond this stage cases would be dealt with on a case by case basis, but it could eventually lead to Social Security Scotland's Interventions team being involved and the need to consult with Legal and Policy colleagues. As there is a defined process for this which includes arrangements for escalating the issue no recommendation has been made in this report. However we are highlighting that the risk remains with Social Security Scotland that a benefit could remain in payment to recipients who are not eligible due to them no longer being resident in Scotland

Annex A Definition of Assurance and Recommendation Categories

Assurance Levels

Substantial Assurance Controls are robust and well managed	Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.
Reasonable Assurance Controls are adequate but require improvement	Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.
Limited Assurance Controls are developing but weak	There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.
Insufficient Assurance Controls are not acceptable and have notable weaknesses	There are significant weaknesses in the current risk, governance and/or control procedures, to the extent that the delivery of objectives is at risk. Exposure to the weaknesses identified is sizeable and requires urgent mitigating action.

Recommendation Priority

High	Serious risk exposure or weakness requiring urgent consideration.
Medium	Moderate risk exposure or weakness with need to improve related controls.
Low	Relatively minor or housekeeping issue.

Annex B – Terms of Reference



Directorate for Internal Audit and Assurance

Internal Audit Terms of Reference

Social Security Scotland 2021-22

Residency

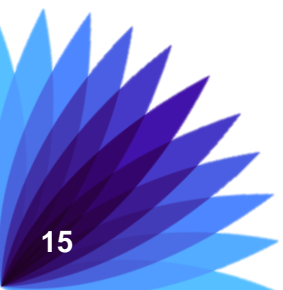


Key Audit Contacts

Audit Year:	2021-22
Client Accountable Officer:	David Wallace, Chief Executive
Client Audit Contact(s):	[redacted], Corporate Assurance Lead; [redacted], Head of Operations (Wave One and Live Running); [redacted], Operations Support Lead; [redacted], Head of Fraud and Error Resolution; [redacted], Fraud Prevention Lead [redacted], Head of Change, Continuous Improvement and Project Management; [redacted], Organisational Strategy, Operational Policy and Corporate Assurance; [redacted], Service Manager, Social Security Directorate; [redacted], Client Experience Lead; [redacted], Head of Local Delivery; [redacted], Head of Operations (Disability and Carers Benefits) [redacted], Operational Lead [redacted], Operational Lead
Head of Internal Audit:	[redacted]
Internal Audit Manager:	[redacted]
Internal Auditor	[redacted]

Estimated Reporting Timescale

Fieldwork Starts:	14 June 2021
Fieldwork Ends:	30 June 2021
Draft Report Issued:	14 July 2021
Final Report Issued:	28 July 2021
Estimated Resource Days:	20



Introduction

- 1.1. This internal audit review forms parts of our planned audit coverage agreed by the Accountable Officer and noted by the Audit and Assurance Committee on 09 February 2021.
- 1.2. To aide understanding it is important to clearly set out the relationship between Social Security Scotland and the Social Security Directorate (Programme). Social Security Directorate is responsible for developing the policies and designing and building the new Scottish social security services and is delivering the components on an incremental day to day basis through an agile environment. Minimal Viable Products are designed by the Social Security Directorate, in collaboration with Social Security Scotland from early discovery through to transition when Social Security Scotland will be supported to develop these as necessary.
- 1.3. To be eligible for benefits administered by Social Security Scotland you must live in Scotland. As part of the determination process for any benefit, an assessment to confirm the applicants residency status must be undertaken, to confirm that they meet this element of the eligibility criteria. As such it is essential that Social Security Scotland have robust controls in place to assess and verify an applicant's residency status. This includes assessment for any new claims as well as for ongoing claims maintenance and change of circumstances.
- 1.4. The Social Security Scotland Strategic Risk Register includes the following risks:

If the Agency do not have sufficiently developed processes to enable effective maintenance of ongoing benefit awards THEN this will lead to inaccurate client records being held, awards being paid incorrectly and an inability to recognise, account for, and correct associated underpayments and overpayments RESULTING in financial loss through increased fraud and error, non-compliance with Data Protection statutory obligations, poor client service offering and associated reputational damage.
- 1.5. We held a planning meeting on 26th April 2021 with the key contacts set out in the distribution list to discuss the proposed scope of this review.

- 1.6. Our key risks below have been developed through these discussions and our knowledge of Social Security Scotland and its objectives.

2. Scope

- 2.1. To evaluate and report on the controls in place to manage the risks surrounding Social Security Scotland's arrangements for assessing and verifying the Residency of all applicants and recipients of Scottish social security benefits.
- 2.2. This review will assess the controls in place to verify and ensure currency of residency of claimants to ensure benefits are only paid to individuals who are Scottish residents. This will include consideration of how statute in relation to this has been interpreted and the actions being taken by Social Security Scotland to verify the residency of each applicant. There will also be consideration given to change of address and ensuring any move outwith Scotland is identified and appropriate action taken in relation to payment of benefits to minimise the occurrence of over/under payments.
- 2.3. Remit Item 1 – **Policies, Procedures, Guidance and Training**
To review policies, procedures, guidance and training in relation to residency and how this is verified to confirm that these are aligned with statute and sufficient to support correct decisions being made to allow the effective and consistent delivery of Scottish Social Security benefits.

Key Risks:

- A failure to establish timely policies and procedures and guidance on residency, which is aligned with statute, leading to an inconsistent or ineffective approach to delivery and increasing the risk that payments will not be administered correctly resulting in ineligible or incorrect payments being made.
- Lack of effective guidance and training detailing the processes to be followed for verifying residency leading to lack of staff knowledge and insufficient checks being undertaken resulting in poor quality and diminished service levels, incorrect payments being made or increasing the volume of redeterminations and appeals and reputational damage.
- Knowledge of good practice and lessons learned from current live benefits not being captured and utilised to shape forthcoming Disability and Carer Benefits,

leading to new benefits being delivered which do not have sufficient controls in place to ensure benefits are only provided to those resident in Scotland.

2.4. Remit Item 2 – **Processes and Controls**

To assess the processes and controls in place for the verification of residency as part of initial determination, change of circumstances, case maintenance or redetermination stages and assess for efficiency and effectiveness.

Key Risks:

- Residency verification processes and controls being ineffective or circumvented leading to instances of fraud or error.
- Poor consideration of requirements or gaps in the processes and controls for residency checks at all stages of the application process, including insufficient controls to ensure the evidence to substantiate address information is accurate and legitimate, increasing the risk of fraudulent or erroneous payments being made.
- Processes and controls for residency verification requiring manual workaround leading to instances of fraud or error.
- Payments being made without the required approval checks and authorisation.
- An inability to identify instances of error and non-compliance with residency checks which could result in fraudulent or erroneous payments being made to those who are not eligible.
- An inability to identify changes to residency and lack of proactive checks as part of ongoing claims maintenance, including insufficient action in relation to returned mail and processing of change in circumstances, to verify residency resulting in payments being made to ineligible individuals.

3. Approach

- 3.1. We will undertake the audit in compliance with the Internal Audit Charter and Memorandum of Understanding agreed between the Directorate for Internal Audit and Assurance and Social Security Scotland.
- 3.2. Due to current Scottish Government remote working requirements, this review will be undertaken remotely and we will utilise eRDM Connect for sharing documents and screen sharing technology as necessary. Methods of undertaking fieldwork will be amended as appropriate.
- 3.3. Social Security Scotland is reminded of our need for timely access to people/systems and responsiveness to information requests, to enable the reporting timetable to be met.