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# Internal Audit Report

## Social Security Scotland 2021-2022

### Budget Setting

Directorate for Internal Audit and Assurance

Issue Date: 4-03- 2022

**Budget Setting**

<b>Assurance Category</b>	<b>Reasonable</b>
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<b>Recommendations Profile</b>	<b>0 High</b>	<b>3 Medium</b>	<b>1 Low</b>
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**Audit Information**

Senior Internal Audit Manager:	[REDACTED]
Internal Audit Manager:	[REDACTED]
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**Report Distribution**

David Wallace, Chief Executive, Social Security Scotland (Accountable Officer)*
James Wallace, Deputy Director, Finance and Corporate Services
[REDACTED] , Head of Finance, Social Security Scotland
[REDACTED] , Corporate Finance Lead, Social Security Scotland
Audit Scotland *

\*Final Report only\*

## Contents

<b>1</b>	<b>Executive Summary</b>	<b>3</b>
<b>2</b>	<b>Introduction</b>	<b>5</b>
<b>3</b>	<b>Finding</b>	<b>8</b>
<b>4</b>	<b>Action Plan</b>	<b>16</b>

### Annexes

<b>A</b>	<b>Definition of Assurance and Recommendation Categories</b>
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## 1. **Executive Summary**

1.1. We have provided an overall “reasonable” assurance opinion, which mean 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.

See **Annex A** for a full explanation of our assurance and recommendation categories.

1.2. Our review identified three medium priority and one low priority recommendations. We have summarised below the key examples of good practice and improvement opportunities.

### 1.3. **Good Practice Examples**

- Social Security Scotland have established internal templates and models with guidance for completing budgetary activities and information requests.
- There are internally generated timelines to provide clarity and plan for budgetary requests to ensure timely submission.
- Social Security Scotland is producing the requested budgetary information in the requested templates to requested timeframes.
- Roles and responsibilities are well defined and understood both within Social Security Scotland and in relation to wider interested organisations.
- There is clear and robust internal governance over budget setting.
- Social Security Scotland has put in place training and regular meetings with budget holders within the organisation to increase the organisation’s understanding of its budget.

### 1.4. **Improvement Opportunities**

- Social Security Scotland has experienced significant underspends against budget for their workforce costs in the current and previous financial

years. There is therefore an increased risk of inaccurate base data for workforce budgeting.

See **Recommendation 1**

- The current mechanisms in place for communicating budgetary information, specifically additional contextual information around budget process, assumptions, estimates and associated risks to accuracy do not meet Social Security Scotland and its related parties needs for information.

See **Recommendation 2**

- Due to the number of parties who have an interest in Social Security Scotland's budgetary information, along with the variety of information that can be requested for different purposes, information requests can have short lead times, be unclear on timeframes and can be repetitive.

See **Recommendation 3**

- Though there are templates and guidance in place, the process documentation could be improved to clearly record key information in a single document to provide a single point overview and context for Social Security Scotland's budgetary process. This is particularly important given the complexity of budgeting for Social Security Scotland.

See **Recommendation 4**

## **2. Introduction**

- 2.1. This internal audit review of Social Security Scotland's budget setting arrangements forms part of our planned audit coverage agreed by the Accountable Officer and noted by the Audit and Assurance Committee on 09 February 2021.
- 2.2. Social Security Scotland has included in its strategic risk register the following financial risk:

- *If public finances continue to become more restricted then we will not have the resources required to deliver our services to expected quality levels resulting in reputational damage to us and Scottish Government.*

2.3. The above risk highlights the need for Social Security Scotland to have adequate arrangements in place for setting its budgets, and for producing and communicating budgetary information as part of a wider group of interested parties. Through good quality budgets, budgetary information and explanation, Social Security Scotland builds a reputation for accuracy in forecasting its resource requirements and decreases the risk of not receiving adequate resources.

2.4. The scope of this audit was to evaluate and report on the process and controls in place to manage the risks surrounding Social Security Scotland's budget setting governance and communication with wider interested parties.

2.5. The remit items and key risks, were:

2.6. Remit **Item 1 – Governance:** To review the policies and procedures in place to achieve and monitor the setting of budgets including training, guidance, systems and tools. This will include consideration of the arrangements for Social Security Scotland reporting into Social Security Directorate, DG Communities, DG Scottish Exchequer and the relevant Portfolio.

#### Key Risks:

- Ineffective working practices (duplication or gaps) and communication with wider related parties due to unclear roles, responsibilities and governance structures
- Inability to raise budgetary concerns due to a lack of escalation routes
- Lack of information, ineffective relationship or communication with wider related parties
- Lack of scrutiny, transparency and accountability

2.7. Remit **Item 2 – Budget Setting Processes and Procedures:** To review the policies and procedures in place to achieve and monitor the setting of budgets including training, guidance, systems and tools. This will include consideration of the arrangements for Social Security Scotland reporting into Social Security Directorate, DG Communities, DG Scottish Exchequer and the relevant Portfolio.

Key Risks:

- Inconsistent and/or ineffective practices due to a lack of directive information
- Inability to achieve strategic objectives due to unclear or unachievable timelines
- Inability to effectively analyse and budget due to ineffective tools, methods or systems
- Incorrect budget figures due to ineffective relationships or communication both internally and externally
- Incorrect budget figures due to inaccurate information or assumptions
- Inability to demonstrate long term consideration of affordability due to lack of long term budget plans.

2.8. We assessed the controls actually in place against those we believe should be in place, based on: organisational policies and procedures; the legal and regulatory framework within which Social Security Scotland operates; and leading industry and professional practices.

2.9. To ascertain the controls in place, we interviewed a number of staff within Social Security Scotland as well as Social Security Directorate, DG Communities and Finance Business Partners, and reviewed relevant documentation.

2.10. Our findings (which cover examples of good practice as well as improvement opportunities), implications and recommendations were fully discussed with relevant managers and staff during the review.

2.11. We are grateful for the co-operation received from all managers and staff involved in the process.



### **3. Findings**

#### **Base Data**

- 3.1. From review we were able to confirm that Social Security Scotland uses an appropriately broad range of input base data for its budgeting process, including: prior year's budget, financial actuals from SEAS, regular meetings with budget holders within the organisation, centrally mandated information (e.g. inflation rates), external inputs (Scottish Fiscal Commission) and workforce planning data.
- 3.2. Social Security Scotland maintains templates and models used to produce their forecasts and budgets from the base data provided.
- 3.3. However, we note that there has been significant variance to budget over payroll costs for Social Security Scotland in the current and prior financial year. This is primarily due to the impact of COVID-19, which delayed the implementation of certain benefits, and therefore the required volume recruitment.
- 3.4. Though recent variances in planned recruitment were the result of external factors, as payroll costs are predominantly based from workforce planning information, and given prior year variances, Social Security Scotland should consider its approach to this data for budgeting purposes.

**Please see Recommendation 1**

#### **Communication**

- 3.5. Social Security Scotland sits within a complex network for budgeting purposes, producing information for social security as whole (alongside Social Security Directorate), DG Exchequer, DG Communities and Portfolio. The result is that multiple parties have interest in its budgeting activities and so may have multiple requests on the organisation.
- 3.6. Furthermore, Social Security Scotland is a relatively recently formed organisation with a need to expand rapidly to fulfil its objectives. There are therefore additional complexities in budgeting as it is not in a steady state. The result is that budgetary assumptions, estimates and risks are complex

and carry additional uncertainties. This additional contextual budgetary information cannot be entered into the prescribed templates provided.

- 3.7. There is therefore an increased need for early and clear communication across this network to enable:
- Clear, concise, timely and non-repetitive requests for budgetary information from Social Security Scotland
  - Social Security Scotland to share additional contextual detail around their budgetary information, specifically the assumptions, estimates and risks involved to inform budget allocations.
- 3.8. There are currently communication paths in place, via regular budgetary meetings, and requests being provided by email, including guidance on how to complete budgetary information requests. There are also prescribed templates for sharing budgetary information, internal templates for non-centrally requested information, and an internal timeline to manage the various requests.
- 3.9. However, the current communication paths and mechanisms do not meet Social Security Scotland's needs to plan and manage the requests for budgetary information or to effectively communicate contextual budgetary information.

**Please see Recommendations 1 and 2**

### **Directive Documentation and Training**

- 3.10. Social Security Scotland maintains directive documentation including templates, models for compiling their budget / forecast, guidance for completing those templates / models and approval for budget information.
- 3.11. However, there is no documentation in place to bring together the various directive information into a single space, and so give an overview of how budgeting works within Social Security Scotland, how Social Security Scotland fits within the greater budgetary environment, the basic overall process for budgeting, and all internal teams' roles and responsibilities.
- 3.12. Though these are well understood and defined, given the complexity of the budgetary environment, documenting an overview would aid in clarity and explanation for anyone new to the budgetary activities.

**Please see Recommendation 4**

**Roles, Responsibilities and Governance**

- 3.13. From interviews with a range of stakeholders including Social Security Scotland, Social Security Directorate, Finance Business Partners and DG Communities, we see well defined and understood roles and responsibilities over budgetary activities across the complex and broad group.
- 3.14. Social Security Scotland has a well-defined and documented governance and approval route for its budgets.
- 3.15. However, the roles, responsibilities and interactions between Social Security Scotland and the external interested parties, are not documented. Given the complexity of the interactions, documenting these roles, responsibilities and interactions would make this clear for those new to the organisation.

**Please see Recommendation 4**

#### 4. Action Plan

No	Issue / Risk(s)	Recommendation	Priority (H/M/L)	Management Response / Action Owner	Action Due
1	<p><b>Issue:-</b>  <u>Quality of base data</u>                      Workforce costs currently represent the highest proportion of Social Security Scotland’s operational budget, and so workforce planning base data is the key input for budgeting. However, Social Security Scotland has experienced significant underspends against budget in this area for the current and previous financial years.</p> <p><b>Risk:-</b></p> <ul style="list-style-type: none"> <li>• Social Security Scotland receives insufficient resource allocation due to a lack of confidence in its forecasts due to previous underspends against budgets.</li> </ul>	<p>As Internal Audit is conducting a review of Workforce Planning in the 2021/22 audit cycle, recommendations for improvements to generating base data will be covered as part of that work.</p> <p>However, finance should work closely with Workforce Planning as they continue to establish and improve the function, to ensure the processes, methodologies and outputs meet finance’s requirements for budget base data.</p>	<p><b>M</b></p>	<p><b>Action Owner:</b>  <b>Corporate Finance Lead</b></p> <p>Agreed. We will continue to work closely with workforce planning colleagues on our finance requirements.</p>	<p>March 23</p>

	<ul style="list-style-type: none"> <li>• Social Security Scotland receives budget in the year that goes unspent, which could have been spent on other priorities of the Scottish Government</li> <li>• Inaccurate budgets and forecasts lead to an inability to give a complete and accurate picture of the costs of social security to the Scottish Government.</li> </ul>				
2	<p><b>Issue:-</b>  <u>Communication of budgetary information</u>                  The current mechanisms in place for communicating budgetary information, specifically additional contextual information around assumptions, estimates and associated risks to accuracy do not meet Social Security Scotland and</p>	<p>Establish a mechanism to communicate to all related parties (Programme, DG Exchequer and DG Communities) additional budgetary information around budget processes, assumptions, estimates and associated risks. Specifically, this mechanism could be used to ensure budgetary information is</p>	<p style="text-align: center;"><b>M</b></p>	<p><b>Action Owner:</b>  <b>Head of Finance</b>                  Agreed – we will raise this issue at the next Central Finance liaison group and seek greater influence over the design of the processes.</p>	<p>June 2022</p>

	<p>its related parties needs for information.</p> <p><b>Risk:-</b></p> <ul style="list-style-type: none"> <li>• Social Security Scotland receives insufficient resource allocation due to a lack of confidence in its forecasts due to previous underspends against budgets.</li> </ul>	<p>appropriate escalated through to DG Exchequer.</p> <p>Earlier communication, including explaining draft workings, would create a transparent and clear budget story and greater “buy in” from related parties.</p>			
3	<p><b>Issue:-</b></p> <p><u>Unclear budget requests</u></p> <p>Due to the number of parties with interest in budgetary information from Social Security Scotland, including Social Security Directorate, DG Exchequer, Portfolio, DG Communities and Scottish Fiscal Commission, along with the variety of information that can be requested for different purposes, information requests of Social Security Scotland can have short lead times, unclear</p>	<p>Social Security Scotland should work with all related parties to produce a mechanism (e.g. regular meetings) by which budgetary information requests can be reviewed, agreed on and formally planned, focusing on:</p> <ul style="list-style-type: none"> <li>• Timely requests</li> <li>• Agreed minimum time to complete requests</li> <li>• Clear timelines (even if internally generated)</li> <li>• Single requests for information</li> </ul>	M	<p><b>Action Owner:</b></p> <p><b>Corporate Finance Lead</b></p> <p>Agreed – discussions have started with the Social security Directorate to put in place more effective mechanisms and we will aim to expand these to cover the wider interests.</p>	Sept 2022

	<p>timelines, be repetitive or their wider use be unclear to Social Security Scotland.</p> <p><b>Risk:-</b></p> <ul style="list-style-type: none"> <li>• Social Security Scotland are unable to produce budgetary information of sufficient quality as timelines are unreasonably short or unclear.</li> <li>• Production of budgetary information is inefficient due to repetitive requests for similar information.</li> </ul>	<ul style="list-style-type: none"> <li>• Sharing information with all parties that might desire it</li> <li>• Understanding the use of requests information</li> </ul>			
4	<p><b>Issue:-</b> <u>Process documentation</u></p> <p>Though there is guidance and templates in place, the process documentation around budgeting could be improved to clearly record key information in a single document that provides an overview and context of Social Security Scotland’s budgetary arrangements. This is</p>	<p>Management should produce process documentation or framework to clearly show and record:</p> <ul style="list-style-type: none"> <li>• The various parties involved and how they relate to Social Security Scotland</li> <li>• The roles and responsibilities of the various parties</li> </ul>	L	<p><b>Action Owner:</b> <b>Corporate Finance Lead</b></p> <p>Agreed – we will produce an overarching document which brings together our various guidance documents on budgeting.</p>	Sept 2022

	<p>particularly important given the complexity of budgeting for Social Security Scotland.</p> <p><b>Risk:-</b></p> <ul style="list-style-type: none"> <li>• Structural information around budgeting, such as governance, roles and responsibilities, communication mechanisms, expected timelines and approval routes, are not well defined, understood or adhered to, resulting in inefficient budgeting processes.</li> </ul>	<ul style="list-style-type: none"> <li>• How the various parties communicate (key forums etc)</li> <li>• Any interconnected review / communication / governance forums</li> <li>• How and approximately when requests come in for budgets</li> <li>• Basic general budgeting timelines</li> <li>• Basic process of budgeting: sources of information, modelling, approvals, outcomes and submission</li> <li>• Required approval route for submissions</li> <li>• Templates are that used</li> <li>• Training available to staff around budgeting</li> </ul>			
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**Definition of Assurance and Recommendation Categories****Assurance**

<b>Substantial Assurance</b> <b>Controls are robust and well managed</b>	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.
<b>Reasonable Assurance</b> <b>Controls are adequate but require improvement</b>	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.
<b>Limited Assurance</b> <b>Controls are developing but weak</b>	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.
<b>Insufficient Assurance</b> <b>Controls are not acceptable and have notable weaknesses</b>	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.

**Recommendations**

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