

Social Security Scotland

External Audit Planning Update 2021/22



 AUDIT SCOTLAND

Prepared for Social Security Scotland

February 2022

External Audit Planning

Introduction

1. 2021/22 is the fourth year of our external audit appointment to Social Security Scotland. The period of appointment was extended by one year, at the request of Audit Scotland, due to the Covid-19 pandemic.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

3. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

Financial statements audit planning and risks for 2021/22

4. As Covid-19 continues to impact how we work, the 2021/22 audit is likely to be conducted remotely. The extended timetable for concluding the 2020/21 audits has impacted on this year's planning work. However, we plan to prioritise our resources in order to compress our audit work as we look to deliver the 2021/22 audits to an earlier timetable. We will maintain a pragmatic and flexible approach to the audit and will continue to have discussions with management.

Materiality

5. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

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

Exhibit 1

Materiality for Social Security Scotland

Materiality	Value
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2022 it has been set at 1 per cent of gross expenditure based on the recent financial reporting.	£37.7 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60 per cent of planning materiality.	£22.6 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at a level that recognises the lower level of operating expenditure incurred.	£100,000

Source: Audit Scotland

Financial statements risks

7. Due to the delay to planning mentioned above we are not currently able to provide the Audit and Assurance Committee with our Annual Audit Plan for 2021/22. We have, however, started our planning work and based on our progress to date and previous audit knowledge we recognise the following significant financial statements risks i.e. those risks which have the most significant impact on our audit, for Social Security Scotland:

- **Management override of controls** - Presumed significant risk in any audit in accordance with ISA 240.
- **Risk of material misstatement due to fraud in benefit expenditure** - 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 value of benefits that were devolved from 1 April 2020, there is a risk of material misstatement due to fraud resulting in a modified regularity opinion across these benefit streams.

Wider audit dimensions

8. In addition to our audit work on the financial statements the public sector audit model extends our responsibilities into wider audit dimensions as shown in [Exhibit 2](#).

Exhibit 2 Audit dimensions



Source: Code of Audit Practice

Wider dimension risks

9. From our wider audit knowledge and the planning work completed to date we recognise the following wider dimension audit risks for Social Security Scotland:

- **Error and fraud measurement arrangements** - 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 however this work should now be prioritised to develop arrangements before the more complex benefits are introduced later in 2022.
- **Longer-term planning to support the Scottish social security system** - Four-year financial plans are now in place which provides the starting point for Social Security Scotland to develop long term financial, workforce, estates and IT plans. The workforce strategy is underway, however further consideration is needed for longer term planning, and to align with the Resourcing Strategy.
- **Control environment within Social Programme Management system** - An agile approach is being used to deliver the benefit systems within Social Security Scotland. Due to the pace of delivery there are a number of areas where the system control environment is supplemented by manual arrangements until system improvements are implemented. As Social Security Scotland progress with the delivery of more complex

benefits there is a need for a strong system control environment to support the prevention and detection of error and fraud.

10. There may be additional audit risks identified from our planning work which will feature in our Annual Audit Plan, but I thought highlighting those above would support our discussion.

Best Value

11. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that Social Security Scotland has arrangements in place in this regard when reporting on the audit dimensions.

12. Additionally, as part of our Best Value work we will be carrying out a review of Fairness and Equality characteristics and how they are being embedded within Social Security Scotland.

Other Matters

Audit fee

13. The proposed audit fee for the 2021/22 audit of Social Security Scotland is £412,620 (2020/21: £404,390). In determining the audit fee, we have taken account of the risk exposure of Social Security Scotland and the planned management assurances in place. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package in June 2022.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team and timetable

15. The engagement lead (i.e. appointed auditor) for Social Security Scotland is Carole Grant, Audit Director, with Pauline Gillen as Senior Manager. The Annual Audit Plan will contain the detailed annual accounts timetable. We are working towards a September signing date to support the return to pre-pandemic timelines across the public sector.

Managing the transition to 2022/23 audits

16. 2021/22 is the final year of the current audit appointment. Where there are changes to the external auditor we plan to minimise disruption to all parties by working closely with the new audit team to share information and transfer knowledge.

Concluding remarks

17. The Audit and Assurance Committee are asked to note this report and agree the best way to consider the Annual Audit Plan in due course.