



## Audit and Assurance Committee

<b>Date of Meeting</b>	29 <sup>th</sup> August 2023
<b>Subject</b>	Draft Audit and Assurance Committee Annual Report
<b>Agenda No.</b>	9
<b>Paper No.</b>	23.8
<b>Prepared By</b>	Russell Frith
<b>Purpose</b>	Discuss

### 1. Background

- 1.1. Attached is a copy of the draft annual report of the work of the Audit and Assurance Committee for the period from 1 April 2022 to 31 March 2023.

### 2. Key points

- 2.1. Audit Committees are required to produce annual reports. The annual report is a key part of the Agency's corporate governance. It provides independent advice, opinion and assurance to the Accountable Officer and Executive Advisory Body about the quality, effectiveness and completeness of the control mechanisms operating in Social Security Scotland.

### 3. Conclusions

- 3.1. Members are invited to discuss the draft report.



## 4. GOVERNANCE CHECKLIST

Strategic Objective	Contribution
<p><b>Dignity, fairness and respect</b></p> <p>Delivering a service with dignity, fairness and respect at its core.</p>	
<p><b>Equality and tackling poverty</b></p> <p>Promoting equality and tackling poverty.</p>	
<p><b>Efficiency and alignment</b></p> <p>Ensuring efficiency and aligning our activities with wider public sector for the benefit of the people we serve.</p>	<p>The annual report is a key part of Social Security Scotland’s corporate governance. It provides independent advice, opinion and assurance to the Accountable Officer and Executive Advisory Body about the quality, effectiveness and completeness of the control mechanisms operating in the organisation.</p>
<p><b>Economy, society and environment</b></p> <p>Contributing to our economy, society and protection of our environment.</p>	
Strategic consideration	Impact
Environment	
Governance	This report forms a key element of the Committee Governance and will be submitted to the Executive Advisory Body.
Data	
Finance	
Staff	
Equalities	
Estates	
Communications and Presentation	A copy of this report will be made available on the website.



## **Social Security Scotland's Annual Report of the Audit and Assurance Committee to the Executive Advisory Body and the Accountable Officer.**

### **Foreword**

I am pleased to present to you the Annual Report of the Audit and Assurance Committee (the Committee) of Social Security Scotland, covering the period 1 April 2022 to 31 March 2023. The Committee's primary objective is to provide support on the issues of risk, control, governance and assurance through a process of constructive challenge.

This report highlights the Committee's activities and achievements throughout the year, which demonstrate the commitment to ensuring Social Security Scotland is run in a responsible way. The Committee has been in operation for five years and, like Social Security Scotland, has continued to develop over time. Over the past five years, the Committee has consistently provided effective advice and support to the Accountable Officer, which in turn supports people in Scotland accessing the benefits they are entitled to.

This year, the Committee has started working with a new team of colleagues from Audit Scotland, as per the Auditor Generals five-year rotation of auditors. A strong relationship has been built while working with Audit Scotland, and this provides a strong foundation for the new members joining.

The Committee would like to thank Elaine Noad, who departed the committee in September 2022. Elaine joined in 2018 and in her four years of service used her experience to drive many improvements within Social Security Scotland. The Committee appreciates her time and valuable contributions and we wish her the best in the future.

Overall, we are pleased with the progress made in this reporting year and look forward to supporting Social Security Scotland through 2023-24.

Signed Russell Frith, Chair

## 1. Introduction

This report is addressed principally to the Executive Advisory Body and the Accountable Officer, David Wallace, with the aim of providing assurance to each.

The Committee consists of three Non-Executive Directors and operates independently from Social Security Scotland's management.

The report provides a summary of the main activities undertaken by the Committee from 1 April 2022 to 31 March 2023, with a calendar of business outlined in Annex A. During the reporting period, the Committee held five meetings. A hybrid meeting model was implemented this year which enabled members to participate in-person at Agnes Husband House in Dundee or virtually.

### 1.1 Membership of The Committee

#### **Non-Executive Members.**

Russel Frith.

Barry Matheson.

Naghat Ahmed.

#### **Social Security Scotland.**

From Social Security Scotland, Audit and Assurance Committee meetings were attended by:

- David Wallace - Accountable Officer.
- James Wallace - Deputy Director for Finance and Corporate Services.
- Ally MacPhail - Deputy Director for Strategy, Change, Data and Engagement.
- Leads from Corporate Assurance, Risk, Finance and Fraud, Error and Debt.

Also in attendance were representatives from Audit Scotland and the Scottish Government Directorate for Internal Audit and Assurance.

We also, as appropriate, allow observers to attend the meetings either from within Social Security Scotland or the wider Social Security Directorate.

### 1.2 Terms of Reference and Standing Agenda Items

The revised Terms of Reference for the Committee was approved at the November 2022 meeting and is based on best practice and consistent with the Audit Committee Handbook issued by the Scottish Government. The revised Terms of Reference from November 2022 are available on the [Corporate Website](#).

The standard items discussed at each meeting includes:



- Minutes of previous meeting and action tracker.
- Social Security Scotland Risk Management update.
- Social Security Scotland Financial Update.
- Social Security Scotland Fraud, Error and Debt Update.
- Social Security Scotland Audit Recommendations Update.
- Internal Audit Directorate Update.
- Audit Scotland Update.

The Committee may request Senior Responsible Officers for Internal Audit reports attend the meeting to provide an overview and offer support towards discussions.

Following each meeting the minutes are submitted to the Executive Advisory Body as the formal report of business. We also proactively publish on [the corporate website](#) all meeting papers within 12 weeks of the meeting taking place.

### **1.3 Ethical Standards and managing potential conflicts of interest**

The Scottish public has high expectations of the way public body board members conduct themselves when undertaking duties. We therefore as committee members must meet the expectations and key principles as set out in the Model Code of Conduct for Members of Devolved Public Bodies. This Code has been issued by the Scottish Ministers, with the approval of the Scottish Parliament, as required by the [Ethical Standards in Public Life \(Scotland\) Act 2000](#).

At each meeting the Chair will confirm if any attendee has registrable interests which must be declared. This is also declared in the Committees annual Self-Assessment. It is the expectation of committee members to ensure any changes in circumstances are reported within one month of them changing. The secretariat of the Committee will record these in the meeting minutes.

## **2. Audit Committee Work during the Year**

### **Internal Audit.**

At each meeting the Committee receives a report from the Directorate for Internal Audit and Assurance, detailing its work in the last quarter. We were satisfied with Internal Audit's work and in total we were presented with 16 high quality Internal Audit reports through 2022-23.

In March 2023 the Committee provided advice for the 2023-24 Audit Plan, as we have done in previous years. The Internal Audit Plan for the organisation is substantial and we are pleased with the balance of the plan. We look forward to being advised of the benefits these reports bring to Social Security Scotland throughout the year. Internal Audit have confirmed less flexibility with the need to be stricter with timescales this year, however we are confident the Corporate Assurance Team and Social Security Scotland will ensure deadlines are met.

The Corporate Assurance team provides a quarterly Audit Recommendations update report, which provides us with greater oversight of the progress and implementation of recommendations.

As Social Security Scotland has a substantial audit plan, this does mean there are a large number of recommendations that are being progressed at any given time. We continue to challenge Social Security Scotland on the implementation of these, ensuring that appropriate timescales and milestones are agreed so momentum on implementation is not lost.

The Committee are pleased that the Directorate for Internal Audit and Assurance have provided an overall “reasonable” assurance on Social Security Scotland’s risk management, governance and control arrangements.

Social Security Scotland and the Committee has a positive relationship with the Directorate for Internal Audit and Assurance and we will continue to work together to ensure Social Security Scotland delivers a high quality service.

### **Audit Scotland.**

In March 2023, the Committee were sent the 2022-2023 Audit Plan prepared by Audit Scotland, which outlined the key audit risks for Social Security Scotland and the planned audit work that will be undertaken in each area. The Committee, like last year, were all offered by Audit Scotland an opportunity to discuss the plan.

In both 2021-22 and the current year, the Committee has not been provided with a Management Report. Instead a verbal update was deemed appropriate due to Audit Scotland’s assurances there are no identified weaknesses in the controls. The Committee are therefore satisfied that Audit Scotland have confirmed that the internal controls within the key Financial Systems, and Internal Controls, are working effectively.

This year’s audit process ran smoothly and the Committee is satisfied with, and confident in, the working relationship with Audit Scotland.

We noted the qualified opinion on the regularity of benefit expenditure from the Department for Work and Pensions. The Committee was advised the Auditor General will not produce a Section 22 report to the Scottish Parliament. This year there was sufficient national performance audit plans in place.

Audit Scotland have assured the Committee of Social Security Scotland’s strong position and are satisfied that long term strategic plans are in place. The Committee look forward to continuing its positive relationship with the new Audit Scotland members in 2023-24.



## **Risk Management.**

This year the risk management approach was under review and discussions took place with senior leaders on making improvements towards risk management being delivered within Social Security Scotland. The risk management function has set out a new approach to be delivered in 2023-2024 and work began in January 2023.

The Risk Review Group continued to provide oversight and analysis of Social Security Scotland's risk and issue profile, providing support for escalation and discussing key threats to Social Security Scotland's objectives. In February 2023 the current Risk Review Group membership was stood down and new membership was requested from the Executive Team. The new Risk Review Group will meet in April 2023. The focus of the group will now be on the newly developing strategic risks and top divisional risks and issues.

As part of the review of the risk approach, a new strategic risk register is being developed that will capture the highest level threats to Social Security Scotland. This was work that had previously begun under Principal Risk development. Once articulated the new risk register will be made available to the Executive Team for sign off and will be scrutinised regularly by the Risk Review Group, Executive Team and the Audit and Assurance Committee to ensure that the risks are recognised as the key threats to Social Security Scotland's objectives.

The risk management team has continued with a monthly reporting cycle, providing support to divisional risk discussions. A new reporting cycle will be put in place that will include on-going monthly updates and discussion with divisional representatives from the Risk Review Group. This is monthly reporting to Agency Leadership Team, quarterly reporting to the Executive Team and the continuation of quarterly reporting to the Audit and Assurance Committee.

A learning package is being developed within the risk management function and two pilot sessions have been delivered by the team. This is hoped to develop to a mix of facilitated learning and e-learning, with the focus being initially on delivering facilitated learning to Social Security Scotland colleagues.

The Committee have supported the Risk Manager in reviewing risk recommendations and will continue to offer input. The chair of the Audit and Assurance Committee attended a session of the Risk Review Group to support the development of the new approach and the new risk register. In 2023-2024 the Risk team will provide clearer reporting on the management of strategic risks. We are content that this work is proceeding at pace and we as a committee will continue to support.

Based on evidence presented at meetings, we believe there is an appropriate risk strategy in place and are pleased at the overall work of the Risk team in 2022-23. The Risk team will continue to work with management to monitor and report the controls in place to mitigate risks ensuring Social Security Scotland meets its strategic objectives.



**Financial.**

At each meeting the Committee reviews the results and forecasts of Operating, Capital and Benefit Expenditure.

The Committee are satisfied with all the strong work being undertaken by the Social Security Scotland Finance Team. The Committee will work to ensure Social Security Scotland are fiscally responsible and provide feedback on reporting formats to ensure quality.

**Fraud, Error and Debt.**

The Committee receives regular reports on fraud, error and debt recovery work in Social Security Scotland. This year saw the presentation of detailed annual reports summarising the significant work undertaken. Services were reinstated in 2022-23 following a pause due to the pandemic, with both counter fraud and proactive debt recovery provisions reintroduced.

The Committee is pleased with the work over the past year to further develop the Counter Fraud Service, most notably in relation to proactive data analysis to identify fraud and error risk cases. We were regularly updated on the efforts to allow the Interventions Team to return to their original focus of detection, correction and reporting of official and client-induced errors. A number of improvements have either been delivered or are due for deployment as a result of error trend analysis which reveals opportunities to strengthen mitigation. The Committee has also been following progress on estimating the Monetary Value of Fraud and Error and they recognise the importance of development of this work at pace.

The Committee is pleased to see that detected levels of fraud and error continue to be low and commend the controls that are in place but recognises that further work is necessary to provide assurance that there is not further fraud and error occurring that is undetected.

**Corporate Assurance.**

The Corporate Assurance team serves as the secretariat for the meeting, organising all meetings throughout the year and maintaining regular contact with both the Chair and Non-Executive Directors.

To ensure value and effective scrutiny the Corporate Assurance team has collaborated effectively with the Committee to ensure reports have the right amount of information. This has meant reporting formats have been reviewed. This update

has allowed the Committee to understand a clearer picture of how recommendations are progressing and identify any trends.





We are also pleased with the joint efforts between the Corporate Assurance team and Social Security Programme Management Office. In July 2022, a Healthcheck review was conducted to ensure readiness for the transition of benefits from the Social Security Programme to Social Security Scotland. An action plan was formed to ensure the transition is smooth and Social Security Scotland is ready with accountability and has plans in place. The Committee is confident this will ensure a successful transition.

The Corporate Assurance team maintains a strong relationship with Audit Scotland. The actions from the 2022 Audit Scotland report are progressing well and regular meetings are in place to track the progress and completion of these.

The Corporate Assurance team present a bi-annual report called the Register Of Compliance update. The reports aim is to track Social Security Scotland's expectations as a public body and monitor the delivery of statutory functions under the Social Security (Scotland) Act 2018. We are content with the ongoing work and monitoring to ensure compliance within Social Security Scotland.

#### **Other Activity through the year.**

In September 2022 a deep dive session was held with representatives from Fraud, Error and Debt. This session provided the Committee with a more comprehensive understanding of Social Security Scotland's mechanisms and aims for detecting and addressing issues in this area. The Committee recognises the value of Deep Dives and we plan to continue hosting them with other business areas in 2023-24.

In early 2023, I participated in a Risk Register workshop with the aim of making risk management information more understandable and reflect Corporate Level Risks, which would in turn feed into the current refreshing of the Strategic Risk Register. This was a very worthwhile event, and the Accountable Officer, David Wallace, commended all those involved, highlighting the importance of risk identification and management to Social Security Scotland.

The Committee encourages continuous improvement which has resulted in processes and papers being revised. Internal Audit reports are now shared by the secretariat to the Committee once finalised. This allows sufficient time to review the reports which enhances the quality of meeting discussions. Reporting content has been revised throughout the year with alterations made to the Risk Management, Audit Recommendation and Fraud Error and Debt reports. This provides better value to the Committee allowing more effective scrutiny.

Each member of the Committee reviewed and offered feedback to the 2023-24 Audit Plan. The Committee was thankful to be involved and concluded the plan provides a

good balance of audits and we look forward to being updated on the ongoing benefits it will deliver in the next year.



### 3. Conclusions

The Audit and Assurance Committee can never give absolute assurances to the Executive Advisory Body or the Accountable Officer. However, based upon:

- The work of the Committee during this year.
- The continual growth of Social Security Scotland.
- The continuous improvement of reports provided.
- The assurances that we have received as set out above.

We are of the view that Social Security Scotland has the appropriate systems in place that are designed to give the Executive Advisory Body and Accountable Officer the necessary assurances.

The Committee considers that it has an appropriate balance of skills and will keep its performance under review. Each year the Committee undertakes a self-assessment and Social Security Scotland then reflect on possible learning sessions. Should any members identify any areas of development or to seek information on specific topics, then this can be requested through the Committee secretariat. For all new Non Executive Members a robust induction is given through Social Security Scotland's Governance and Organisational Strategy Team.

As Chair of the Committee, I know I can access the Accountable Officer, staff and our internal and external representatives when required.

We continue to be pleased with the progress to date of Social Security Scotland in establishing its Risk Management Function, Fraud and Error Unit, Finance capability and other approaches in respect of public sector compliance.

The Committee notes the hard work of everyone in Social Security Scotland during 2022-23. Next year Social Security Scotland will undertake an embedding and enhancement period. This will enable Social Security Scotland to concentrate on enhancing its system capabilities and strengthen its ability to smoothly delivery benefits to the people of Scotland with Dignity, Fairness and Respect at its core.

We look forward to continuing the support and observing the successes of Social Security Scotland.

#### Annex A

Audit and Assurance Committee Calendar of Business 2022 to 2023.

17 May 2022

1. Welcome including conflicts of interest.
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2. Minutes of previous meeting and action tracker.
3. Audit Scotland 2021-22 Financial Year Update.
4. Internal Audit Directorate Update.
5. Internal Audit Directorate – Annual Assurance Opinion.
6. Social Security Scotland - Error Fraud and Debt Annual Report 2021-22.
7. Social Security Scotland - Approach to Accounts preparation and Accounting Policies 2021-22.
8. Social Security Scotland - Risk Management Update.
9. Social Security Scotland Audit Recommendations Update.
10. Social Security Scotland Register of Compliance Update.

13 September 2022

1. Welcome including conflicts of interest.
2. Minutes of previous meeting and action tracker.
3. Social Security Scotland Risk Management Update.
4. Internal Audit Directorate Update.
5. Social Security Scotland Financial Report.
6. Social Security Scotland Fraud and Error Report.
7. Social Security Scotland Audit Recommendations Update.
8. Social Security Scotland - Data Protection Framework Report and Assurance.

18 October 2022

1. Pre Meeting - Non Executive Board Members, Internal and External Audit only.
2. Welcome including conflicts of interest.
3. Audit Scotland - 2021-22 Annual Audit Report and Independent Auditors Report.
4. Social Security Scotland 2021-22 Annual Report and Accounts.
5. Audit and Assurance Committee Annual Report.



22 November 2022

1. Welcome including conflicts of interest.
2. Minutes and Action Tracker.
3. Social Security Scotland Financial Update.
4. Social Security Scotland Fraud and Error Report.
5. Social Security Scotland Risk Management Update.
6. Internal Audit Directorate Update.
7. Social Security Scotland Audit Recommendations Update.
8. Audit and Assurance Committee Terms of Reference.
9. Assessment of External Audit.
10. Social Security Scotland Register of Compliance Update.

21 March 2023

1. Welcome including conflicts of interest.
2. Minutes and Action Tracker.
3. Audit Scotland Audit Plan 2022-23.
4. Internal Audit Plan 2023-24
5. Internal Audit Directorate Update.
6. Social Security Scotland Finance Update.
7. Social Security Scotland Risk Management Update.
8. Social Security Scotland Fraud, Error and Debt Update.
9. Social Security Scotland Audit Recommendations Update.
10. Audit and Assurance Committee Self-Assessment.



**Appendix A – Attendance Schedule (\* denotes Committee members as per Terms of Reference. Three members of the Committee must be present for meeting to be quorate.)**

Name	Position	17 May 2022	13 September 2022	18 October 2022	22 November 2022	21 March 2023
<b>Russell Frith*</b>	Committee Chair	Present	Present	Present	Present	Present
<b>Elaine Noad*</b>	Committee Member	Apologies	Present	Not in position.	Not in position.	Not in position.
<b>Barry Matheson*</b>	Committee Member	Not in position.	Present	Present	Present	Present
<b>Naghat Ahmed*</b>	Committee Member	Not in position.	Present	Present	Present	Present
<b>David Wallace</b>	Chief Executive Social Security Scotland	Present	Present	Present	Present	Present
<b>James Wallace</b>	Deputy Director of Finance and Corporate Services	Present	Apologies	Present	Present	Present
<b>Ally MacPhail</b>	Deputy Director of Strategy and Client Experience	Present	Present	Apologies	Present	Apologies
<b>SM/RM</b>	Risk Team Manager	Present	Present	Present	Present	Present
<b>LS</b>	Risk and Assurance Team Leader.	Present	Present	Present	Apologies	Present
<b>NB</b>	Head of Finance	Present	Present	Present	Present	Apologies
<b>DP</b>	Head of Strategy and Corporate Services	Apologies	Present	Present	Apologies	Present
<b>MF</b>	Fraud and Error Lead	Apologies	Present	Present	Present	Present



<b>IB</b>	Internal Audit	Present	Present	Present	Present	Present
<b>LS(2)</b>	Internal Audit	Present	Present	Present	Present	Present
<b>FI</b>	Audit Scotland	Present	Present	Present	Present	Not In Position
<b>PG</b>	Audit Scotland	Not in position	Not In Position	Not In Position	Not In Position	Present
<b>Quorate Y/N</b>		<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>	<b>Y</b>