

Social Security Scotland

Annual Audit Plan 2023/24



Prepared for Social Security Scotland

February 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for the 2023/24 audit of Social Security Scotland. The main elements of the audit include:

- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on regularity and other statutory information published with the financial statements in the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual report and accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

2. The audit team remains unchanged from the 2022/23 audit, the first year of this five-year audit appointment. Pauline Gillen will continue as the external auditor appointed by the Auditor General for Scotland.

Respective responsibilities of the auditor and Social Security Scotland

3. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and Social Security Scotland. Key responsibilities are summarised below.

Auditor responsibilities

4. My responsibilities as appointed auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Social Security Scotland. In doing this, we aim to support improvement and accountability.

Social Security Scotland responsibilities

6. Social Security Scotland is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. They are also required to produce other reports in the annual report and accounts in accordance with applicable requirements.

7. Social Security Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

Adding Value

8. My team and I aim to add value by: tailoring audit work to the circumstances of Social Security Scotland and the audit risks identified, being constructive and forward looking, providing independent conclusions, attending meetings of the Audit and Assurance Committee and by recommending and encouraging good practice. In doing this, we will help Social Security Scotland promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

9. The annual report and accounts are an essential part of demonstrating Social Security Scotland's stewardship of resources and its performance in the use of those resources.

10. As appointed auditor, I am required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

11. My team and I focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

12. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. I am required to plan my audit to obtain reasonable assurance about 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.

Materiality levels for the 2023/24 audit

13. We have assessed materiality levels for Social Security Scotland as described in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Social Security Scotland

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of Social Security Scotland's operations. For the year ended 31 March 2024, we have set our materiality at 1% of gross expenditure based on the latest forecasts.	£54 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£33 million

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.

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.	£500,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. Our risk assessment draws on our cumulative knowledge of Social Security Scotland, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

15. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>2. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by DWP</p> <p>Practice Note 10 extends the requirements of ISA 240 to include 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 for the £3.2 billion expenditure administered by the Department for Work and Pensions (DWP).</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"> • Audited financial summary capturing all transactions and balances for the benefit streams administered by the DWP on behalf of Social Security Scotland. • Assess the reasonableness of DWP published estimates for error and fraud levels as applied to Scotland. 	<ul style="list-style-type: none"> • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Assess the audited financial summary prepared by the DWP. • Completion of 'agreed upon procedures' by the National Audit Office (NAO) on our behalf. • Review the DWP published estimates for error and fraud levels and consider appropriateness for Social Security Scotland. • Review benefit expenditure against independent forecasts and investigate any significant variances.
<p>3. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by Social Security Scotland</p> <p>The value of benefits administered by Social Security Scotland has increased significantly in 2023/24. Social Security Scotland's understanding of the fraud and error that exists within the range of</p>	<ul style="list-style-type: none"> • Further development of estimation arrangements, including official error in Best Start Foods. • Internal audit review of estimation of fraud and error. • Continue to develop 	<ul style="list-style-type: none"> • Review the design and implementation of internal controls over benefits administered by Social Security Scotland, including case transfer, with a focus on prevention and detection of fraud and error. • Review developments in fraud and error prevention and detection arrangements. • Ongoing engagement with management to assess progress with the development of arrangements to estimate levels of fraud and error.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>benefits it delivers is still in development. There is a risk that fraud and error arrangements are not developed at the same pace as the roll-out of new benefits. If Social Security Scotland is unable to accurately disclose the level of fraud and error that exists there may be an impact on the audit opinion.</p>	<p>arrangements to prevent and detect fraud and error.</p>	<ul style="list-style-type: none"> • Assess the competence, capability and objectivity of the Analysis and Insights team. • Consider the findings from the internal audit estimation of fraud and error report. • Detailed testing of benefit payments.

Source: Audit Scotland

17. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk in 2023/24 as income is received solely from the Scottish Government and is easily verifiable to external sources. We have not, therefore, incorporated specific work into our audit plan in this area over and above our standard audit procedures.

Regularity

18. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

19. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements. This will be supplemented by audit procedures that relate to the fraud and error that exists within the benefit streams administered by the Department for Work and Pensions.

Wider Scope and Best Value

Introduction

20. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

21. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether Social Security Scotland is planning effectively to continue to deliver services, and will comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by Social Security Scotland. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how Social Security Scotland demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

22. Our planned work on wider scope responsibilities is risk based and proportionate. In summary, our wider scope audit will focus on the following risks:

- **Financial sustainability** – Social Security Scotland is facing financial pressures as the implementation of devolved benefits continues and services transition from the Scottish Government Social Security Programme (the programme). There is a shared understanding with the programme that longer-term financial planning for an Agile project of this scale is challenging and brings increased uncertainty the further into the future costs are projected.

- **Systems Development** – The main system used by Social Security Scotland to administer benefits is the Social Programme Management (SPM) case management system. As the benefits administered by Social Security Scotland increase in volume and complexity, the need for robust system controls which prevent and detect fraud and error increases.

The fast pace of Agile system development is achieved by focusing on the core 'must-have' system functionality to allow a benefit to be launched in an acceptable way and in line with the planned timescales. The technical work required to implement the planned system releases and updates needs to be well managed to ensure the system supports the effective delivery of benefits.

- **Performance Management Arrangements** – Social Security Scotland needs an evidence based assessment of performance to be able to demonstrate value for money and support the measurement of the social security system's impact on outcomes. Performance management arrangements continue to evolve and a programme of improvement work is being led by the Director of Social Security Benefits, Performance and Improvement in 2023/24.

23. In addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of challenges identified in prior years such as climate change and cyber security.

Duty of Best Value

24. [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 such arrangements are in place within Social Security Scotland.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

25. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

26. We will provide:

- an Independent Auditor's Report to Social Security Scotland, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- Social Security Scotland and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

27. [Exhibit 3](#) outlines the target dates for our audit outputs set by the Auditor General for Scotland. In determining the target reporting date, due regard is paid to the administrative date set by the Scottish Government for the consolidated accounts of 31 August.

28. We will be unable to achieve the target date outlined above. This is because the audit of Social Security Scotland depends on assurances from the National Audit Office over the transactions and balances for benefits administered by the DWP on behalf of Social Security Scotland. These assurances are not available until after the target date. We are planning to complete the audit by the later date of 8 October 2024. We will work towards delivering the audit and audit outputs by the target dates over the period of the audit appointment.

Exhibit 3

2023/24 Audit outputs

Audit Output	Target date	Audit and Assurance Committee Date
Annual Audit Plan	31 March 2024	27 February 2024
Independent Auditor's Report	31 August 2024	8 October 2024
Annual Audit Report	31 August 2024	8 October 2024

Source: Audit Scotland

29. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.



Timetable

30. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

31. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

Exhibit 4

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	24 June 2024
Issue of draft annual audit report for clearance discussion	11 September 2024
Latest date for final clearance meeting with the Head of Finance	17 September 2024
Agreement of audited and unsigned annual report and accounts	25 September 2024
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report	27 September 2024
Consideration of audited annual report and accounts and audit reporting by those charged with governance	8 October 2024
Independent Auditor's Report signed	8 October 2024
Latest date for signing of SG Consolidation return	To be confirmed

Source: Audit Scotland

Audit fee

32. In determining the audit fee, we have taken account of the risk exposure of Social Security Scotland and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The agreed audit fee for 2023/24 is £438,680 (2022/23: £414,100).

33. In setting the fee for 2023/24, we have assumed that Social Security Scotland has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal Audit

34. It is the responsibility of Social Security Scotland to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

35. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

36. I am independent of Social Security Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

37. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual 'fit and proper' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

38. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of Social Security Scotland.

Audit Quality

39. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the Audit Scotland website.

40. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring

arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

41. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

42. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

43. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Social Security Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk