

Social Security Scotland

Audit and Assurance Committee
Audit Scotland Planning Update



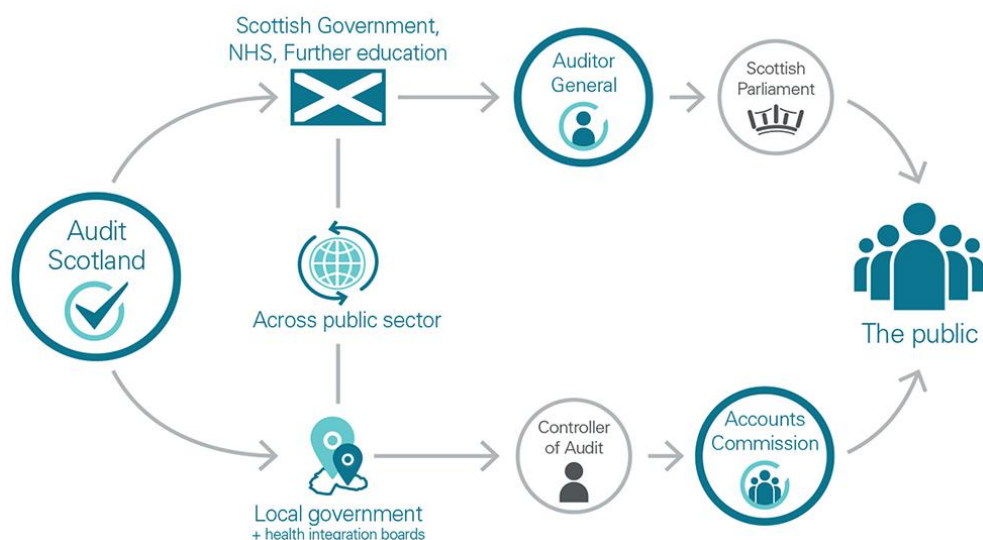
Prepared for Social Security Scotland Audit and Assurance Committee

January 2021

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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External audit update

Audit Scotland arrangements

1. Scotland's public services remain under exceptional pressure due to the Covid-19 pandemic. Our approach to audit during these circumstances continues to be flexible, pragmatic and consistent. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).
2. We recognise that the 2020/21 audit is likely to be conducted remotely and we are building our plans and resources to accommodate that. The later timescales for concluding the 2019/20 audits are undoubtedly having an impact and our audit cycle will be compressed as we look to prioritise resources to deliver the 2020/21 audits.

Parliamentary engagement on 2019/20 Section 22 report

3. Since the last Audit and Assurance Committee in November 2020 there has been parliamentary interest in our [Section 22 report - The 2019/20 audit of Social Security Scotland](#). We provided evidence to the Public Audit and Post Legislative Scrutiny Committee on 10 December 2020 and to the Social Security Committee on 14 January 2021. The convenors for both committees requested further details from the Auditor General following the sessions and letters have been sent in response.

Planning risks for 2020/21

4. 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 2020/21. We have, however, started our planning work and based on our progress to date and previous audit knowledge we recognise the following financial statements audit risks for Social Security Scotland:

- **Risk of material misstatement caused by 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 new benefit streams that were devolved from 1 April 2020, an additional £3 billion expenditure in the annual accounts, there is a risk of a modified regularity opinion across these benefit streams. Work is already underway on assessing this and we are including Scottish Government staff and audit team in recognition of the potential impact on the consolidated accounts.
- **Risk of insufficient evidence to support DWP arrangements** - As most of the benefit expenditure for 2020/21 will be processed by the Department for Work and Pensions (DWP) there is a risk that insufficient assurances are obtained to cover the associated expenditure and balances. Although work

is underway to establish an agreed audit approach, we recognise the risks that exist due to the complex arrangements involved.

- **Risk of insufficient control environment to support the preparation of the annual accounts** - As an agency of the Scottish Government, Social Security Scotland relies on the underlying systems for expenditure areas such as payroll. It is also dependent on the Scottish Government for the development of the Social Programme Management (SPM) system which processes payments such as Scottish Child Payment, Best Start Grants and Funeral Support Payment. As the system is delivered on a Minimum Viable Product (MVP) basis there is a need for ongoing development and improvement of controls. We also need to assess the impact of homeworking on the overall control environment.

5. In addition to our audit work on the financial statements the public sector audit model extends our responsibilities into wider audit dimensions such as financial management and sustainability, governance and best value. The following wider dimension audit risks exist for Social Security Scotland:

- **Risk of insufficient progress on 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 and this should now be prioritised to develop arrangements before the more complex benefits are introduced later in 2021.
- **Risk of insufficient 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. In a developing area, such as the Scottish social security system, scenario planning over the longer term is critical for successful delivery.
- **Risk of insufficient performance management arrangements** - A robust performance management system needs to be developed to enable Social Security Scotland to evidence performance. This should be underpinned by targets and statistics but explained in a fair and balanced way to support the understandability of all stakeholders.

6. 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 assist our discussion.

Audit approach, materiality and fee

7. We recognise that our audit approach must change to address the significant new benefit streams that Social Security Scotland is now accountable for. Discussions with the National Audit Office (NAO) started a few months ago and are now accelerating as we move forward with our audit planning. An approach is being developed, using the principles of ISA 805, whereby the DWP will prepare a financial return that is audited by the NAO resulting in an audit opinion which we can take assurance from. This will be supplemented by several Agreed Upon Procedures, under ISRS 4400, to provide the level of assurance we require.

8. We expect total Social Security Scotland expenditure for 2020/21 to be approximately £3.5 billion and this will have a significant impact on our audit materiality as outlined below:

Materiality	2019/20	2020/21
Planning materiality	£3.9m	£35m
Performance materiality	£2.3m	£21m

Materiality	2019/20	2020/21
Reporting threshold	£0.04m	£0.25m

9. The audit fee is the mechanism by which we cover the costs of our audit work and due to the changes required to the audit approach to address the growth in Social Security Scotland there is a large increase in the proposed audit fee for 2020/21. The details are included below and we expect this to be the most significant increase as the majority of benefits have now been devolved and the audit approach will be embedded.

Fee element	2019/20	2020/21
Auditor remuneration	£118,985	£310,000
Pooled costs	£30,140	£80,800
Audit support costs	£6,040	£13,590
Total fee	£155,165	£404,390

10. It is important to note that the audit approach being adopted for 2020/21 will likely require Social Security Scotland to pay a fee to DWP to cover the cost of the additional audit work required for the financial return. This has been considered when setting the proposed audit fee above.

Audit team and timetable

11. Due to a number of promotions within Audit Scotland there will be some changes to the audit team. Carole Grant will be taking over the Audit Director role from Mark Taylor, and Pauline Gillien will be joining the team as the Senior Audit Manager. The rest of the audit team remains unchanged.

12. The Annual Audit Plan will contain the detailed annual accounts timetable, however it is worth highlighting that it is unlikely that we will be able to deliver an audit to an earlier timetable than last year. We are therefore working to an end of October 2021 signing date and will work flexibly with Social Security Scotland and the Audit and Assurance Committee on the delivery of outputs.

Concluding remarks

13. The Audit and Assurance Committee are asked to note this report and agree the best way to consider the Annual Audit Plan.

Social Security Scotland

Audit Scotland Planning Update

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