

Social Security Scotland

Management report 2020/21



 AUDIT SCOTLAND

Prepared for Social Security Scotland

May 2021

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Social Security Scotland. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing in determining our approach for the 2020/21 financial statements audit.

2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

Conclusion

3. We identified several control weaknesses as summarised in [Exhibit 1](#). We will be carrying out additional substantive procedures in response to these findings. This will enable us to obtain the planned assurances for our audit of the 2020/21 financial statements.

Work summary

4. Our 2020/21 testing covered key controls in a number of areas including bank reconciliations, payroll validation, and Social Programme Management (SPM) system access controls. Additionally, we designed our testing to focus on the key controls operating for each of the benefit streams processed by Social Security Scotland and considered the adequacy of budget monitoring arrangements.

5. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk-based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

6. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Benefits in payment during 2020/21

7. In addition to the seven benefits that were in payment during 2019/20 (Carer's Allowance, Carer's Allowance Supplement, Best Start Grant Pregnancy and Baby, Best Start Grant Early Learning, Best Start Grant School Age, Young Carer Grant and Funeral Support Payment), three new benefits were introduced during 2020/21 (Child Winter Heating Assistance, Job Start Payment and Scottish Child Payment).

8. Social Security Scotland also took on executive competence at 1 April 2020 for five other benefits delivered by the Department for Work and Pensions (DWP) (Personal Independence Payment, Disability Living Allowance, Attendance Allowance, Severe Disablement Allowance and Industrial Injuries).

9. A summary of each of the new benefits for 2020/21 is outlined below:

- Child Winter Heating Assistance – A new benefit for Scotland that is delivered directly by Social Security Scotland. It is an annual payment of £200 to children and young people in receipt of the highest rate care component of Disability Living Allowance, to help with winter heating costs.
- Job Start Payment – A new benefit for Scotland that is directly delivered by Social Security Scotland. It is a one-off payment of £252.50 (or £404 if you are the main carer of any children) to help with the costs of starting a new job. To qualify you must be aged between 16 and 24, out of work for at least 6 months and in receipt of certain qualifying benefits.
- Scottish Child Payment - A new benefit for Scotland that is directly delivered by Social Security Scotland. It is a weekly payment of £10 (payable every four weeks). To qualify you must have a child under the age of 6 and be in receipt of certain qualifying benefits.
- Personal Independence Payment, Disability Living Allowance, Attendance Allowance, Severe Disablement Allowance and Industrial Injuries – All are delivered by the DWP on behalf of Social Security Scotland via an agency agreement. There is no change to how this benefit is delivered in Scotland to the rest of the UK.

Audit approach update

10. In our annual audit plan, we identified a risk that insufficient assurances are obtained to cover the expenditure and balances relating to benefits administered by the DWP. This accounts for around £3 billion (or 97 per cent) of benefits expenditure in 2020/21. Good progress has been made to develop a suitable audit approach, however due to the complex arrangements involved a risk still exists.

11. Our planned audit approach has two parts. Firstly, the DWP will prepare a Financial Summary on behalf of Social Security Scotland that captures the transactions and balances that relate to Scottish claimants. This will be used to prepare the accounts and will be subject to audit by the National Audit Office. We will use the audit opinion and supporting documents to obtain the assurances we require over the transactions and balances disclosed in Social Security Scotland's annual accounts in relation to these benefits. The Financial Summary and supporting technical paper have still to be finalised. Social Security Scotland should work with the DWP to complete this at the earliest opportunity to ensure it is fit for purpose.

12. Secondly, we require the National Audit Office to perform agreed-upon procedures in addition to the audit opinion on the Financial Summary outlined above. This will provide the assurance we need to support our regularity opinion, as the Financial Summary will not cover the estimated monetary value of fraud and error. We have designed these procedures in collaboration with the National Audit Office and reached agreement on 7 April 2021, with reporting due by 11 September 2021. We will remain in regular communication with the National Audit Office about the completion of this work.

13. Using the latest available estimates of the monetary value of fraud and error, the total value of overpayments in Scottish benefits expenditure due to fraud or error is likely to exceed our planning materiality level of £35 million. We have started early discussions on the potential impact on our regularity opinion and will continue to engage with relevant officers at both Social Security Scotland and Scottish Government as our work progresses.

Risks identified

14. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

15. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Social Security Scotland.

Exhibit 1 Key findings and action plan 2020/21

Issue identified	Management response	Responsible officer / target date
<p>Weekly compliance checks not fully evidenced</p> <p>A weekly check of 10 per cent of all benefit payments is completed to ensure that they have been properly processed and approved. It should be secondary checked by the performance manager but in some cases this sign off was not completed for a number of months.</p> <p>In addition, when there is an instance of a compliance check failure there is no information retained on the reason for the failure and the follow up work that is completed as a result.</p> <p>There is a risk that, without the timely completion of performance management checks, wider learning from errors isn't captured.</p>	<p>Performance Managers are required to check 10% of Team Managers work. Operations are currently investigating to understand why there was non-compliance with this process and what actions may be required by Performance Managers going forward.</p> <p>Reasons for rejection are not currently recorded on the compliance check record sheet. Changes are currently being made to the compliance check record sheet to capture this information.</p> <p>Feedback is provided to the Client Advisor and/or Approver dependent on the reason for the fail</p> <p>This information will also be exported into the approval and denial rejection log to provide a full and comprehensive record of rejection, allowing identification of error trends, upskilling and guidance requirements.</p>	<p>Head of Operations June 2021</p>

Issue identified	Management response	Responsible officer / target date
<p>Incorrect payment of Child Winter Heating Assistance</p> <p>Child Winter Heating payments are made by Social Security Scotland based on the information provided to them by the DWP. We identified a number of control weaknesses meaning that payments could be incorrectly made. This has resulted in a payment being made to an individual who did not meet the eligibility criteria.</p> <p>There is a risk that payments are being incorrectly paid to individuals who do not meet the eligibility criteria.</p>	<p>The Social Security Programme is utilising an Agile methodology. Systems and processes are launched as Minimum Viable Products and then matured. We will continue to engage with the Social Security Programme on the design, implementation and improvement of systems and processes that respond to this and other risks in line with the Agile methodology.</p>	<p>Head of Operations and Agency Live Service Lead</p> <p>Ongoing.</p>
<p>Guidance available for client advisors</p> <p>During our work we identified that, across a number of benefits, including Best Start Grants, there is no end to end processing guidance in place. This means that client advisors do not have appropriate guidance to deal with varying situations that arise leading to inconsistent treatment and resolutions.</p> <p>There is a risk that the lack of detailed guidance could have an impact on the correct and consistent delivery of benefits.</p>	<p>Social Security Scotland has launched benefits using a Minimum Viable Product, within an Agile Environment. End to end guidance is available for Client Advisors for each benefit when launched and is held within the Internal Knowledge Management hub. Client Advisors also receive extensive training and a period of consolidation which sets out the process and guidance.</p> <p>However, we take an iterative approach as we learn and therefore guidance is reviewed on an ongoing basis. There have been a number of gaps identified with guidance, some via the feedback facility within the hub, and these have been raised and logged with the Social Security Scotland Live Services Team who will update as required.</p> <p>Operations work with the Live Services Team to highlight any gaps in guidance. This work is prioritised by the Live Services Team. If there is a requirement for temporary guidance this is produced and communicated to Client Advisors.</p> <p>Guidance has been updated recently for a number of benefits including Funeral Support Payment. A video was also produced to support Client Advisors within Scottish Child Payment. The Live Services Team continue to investigate the further use of the Internal Knowledge Management hub to support Client Advisors.</p>	<p>Head of Operations/Agency Live Service Lead</p> <p>Complete</p>

Issue identified	Management response	Responsible officer / target date
<p>Payroll Exception Reporting</p> <p>Exception reports are produced by the finance directorate within Social Security Scotland, however there is currently no evidence of review by the finance team. This was identified and reported during the 2019/20 audit and management advised that the process would be updated, however our audit work indicates that this has not yet been actioned.</p> <p>There is a risk that payroll exceptions are not being fully investigated resulting in identified errors not being addressed.</p>	<p>We have previously noted that these are not exception reports. The payroll costs are downloaded into a spreadsheet that is then used to inform the forecast for pay. We will aim to record review of this information, but it is not evidence that payroll exceptions have been investigated.</p> <p>Payroll exceptions would usually be produced by payroll but there is currently no reporting from the Scottish Government's shared services.</p>	<p>Corporate Finance Lead June 2021</p> <p>People Services N/A</p>
<p>Financial Summary Finalisation</p> <p>The Financial Summary and supporting technical paper have still to be finalised. Social Security Scotland should work with the DWP to complete this at the earliest opportunity to support the preparation of the financial statements.</p> <p>There is a risk that the financial summary does not provide the necessary information to support the Social Security Scotland accounts preparation process.</p>	<p>The Financial Summary and supporting technical paper are finalised, with agreed procedures in place to support the preparation of the financial statements</p>	<p>Corporate Finance Lead Complete</p>

Source: Audit Scotland

Public sector wider dimension

16. Our work to date has focussed on the financial controls that are in place with work on our wider dimensions commencing soon. This work will be focussed on error and fraud arrangements, residency, performance management arrangements and improvements to the control environment. We will provide an update on the findings from the work at the next Audit and Assurance Committee, with formal reporting in our Annual Audit Report.

17. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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