

# Social Security Scotland

Annual Audit Plan 2020/21



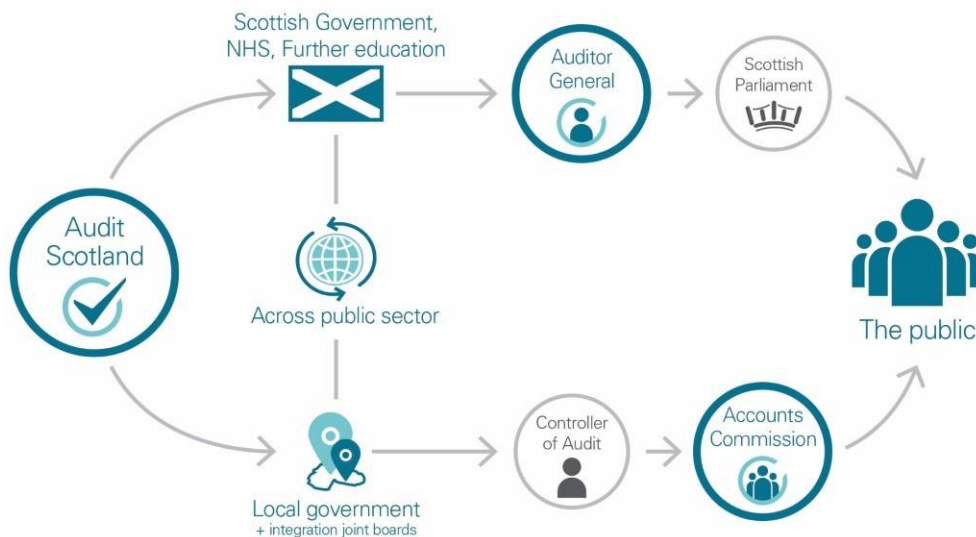
 AUDIT SCOTLAND

Prepared for Social Security Scotland  
March 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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# Risks and planned work

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1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and accounts and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
3. The public health crisis caused by the coronavirus disease 2019 (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.
4. Public audit has an important contribution to make to the recovery and renewal of public services. 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 wellbeing 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. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).

## Adding value

5. We aim to add value to Social Security Scotland by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Social Security Scotland promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks


6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Social Security Scotland. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement due to management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls to change the financial statements disclosures.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries, including specific analysis of the classification between Social Security Scotland and the Scottish Government.</li> <li>• Assessment of appropriateness of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Identification and evaluation of any significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in benefit expenditure</b></p> <p>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, the 2020/21 financial statements will include an additional £3 billion of expenditure.</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>	<p>Management information provided by the Department for Work and Pensions (DWP) to Social Security Scotland under the Agency Agreement in place.</p>	<ul style="list-style-type: none"> <li>• Assess the appropriateness of the Social Programme Management (SPM) system and the controls in place.</li> <li>• Detailed substantive testing focused on more complex, higher risk areas such as benefit payments including the completion of 'agreed upon procedures' by the National Audit Office (NAO) on our behalf.</li> <li>• Review the NAO published estimates for error and fraud levels and consider appropriateness for Social Security Scotland.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
3	<p><b>Risk of insufficient evidence to support DWP arrangements</b></p> <p>As most of the benefit expenditure for 2020/21 will be processed by the 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.</p>	<p>There is on-going communication with the DWP in relation to the assurances required for the benefits that have transferred in 2020/21.</p>	<ul style="list-style-type: none"> <li>Assess the appropriateness of the financial reporting arrangement between the DWP and Social Security Scotland.</li> <li>Consider the impact of the NAO audit opinion on our audit assurances.</li> <li>Assess the results of the 'agreed upon procedures' completed by the NAO on our behalf.</li> </ul>
4	<p><b>Risk of insufficient control environment to support the preparation of the annual accounts</b></p> <p>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. There is a risk that homeworking has had an impact on the operation of the overall control environment.</p>	<p>Management are in communication with the Scottish Government programme to ensure that the backlog of additional internal controls is being managed and the system fixes are being developed and implemented.</p>	<ul style="list-style-type: none"> <li>Assess the appropriateness of the SPM system and the controls in place (both in-built and manual).</li> <li>Focused substantive testing on benefit payments delivered by Social Security Scotland.</li> <li>Reliance on the work carried out by the Scottish Government audit team on the core Scottish Government systems used by Social Security Scotland.</li> </ul>
<b>Wider dimension risks</b>			
5	<p><b>Progress on error and fraud measurement arrangements</b></p> <p>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 but this must now be prioritised to develop arrangements before the more complex benefits are introduced later in 2021.</p>	<p>Continued engagement with the Fraud and Error Resolution Division in relation to progress on the arrangements.</p>	<ul style="list-style-type: none"> <li>Review updated documentation and reporting on the measurement of error and fraud within the benefit streams.</li> <li>Assess the appropriateness of progress and adequacy of arrangements.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
6	<p><b>Adequacy of performance management arrangements</b></p> <p>A robust performance management system needs to be developed to enable Social Security Scotland to evidence its performance. This should be underpinned by a robust and transparent measurement framework which are understood by all stakeholders</p>	<p>The performance management function is being improved and we continue to engage with the Strategy, Policy and Assurance lead.</p> <p>Quality checking introduced with follow up action following performance management procedures.</p> <p>Recent Risk Management work undertaken to consider future approach and scalability of Risk Management Function.</p>	<ul style="list-style-type: none"> <li>• Ongoing engagement with Strategy, Policy and Assurance lead on progress.</li> <li>• Review the development of performance managements arrangements as they are being established.</li> <li>• Assess progress in developing risk management arrangements, including risk registers.</li> </ul>
7	<p><b>Postcode being used to determine residency</b></p> <p>Social Security Scotland continues to use postcode as the determinant of residency. There is a risk that residency status is not being appropriately assessed, particularly as the new disability benefits are launched.</p>	<p>Engagement with the programme to review the controls that have been implemented for residency.</p>	<ul style="list-style-type: none"> <li>• Assess the controls and processes in place in relation to establishing residency.</li> </ul>
8	<p><b>Control environment pace of change</b></p> <p>A number of improvements have been identified for the control environment within the SPM system with a focus on preventing and detecting error and fraud. A cross-cutting route to delivering the required control changes is currently underway, however there is a risk that the pace at which the changes are made is not sufficient, with the first changes not expected until July 2021.</p>	<p>Ongoing engagement with the programme to address the control environment changes</p>	<ul style="list-style-type: none"> <li>• Review the work of the team that is looking at the internal controls environment to assess the pace of change.</li> <li>• Assess the work that is being completed on the backlog of additional internal controls required to the SPM.</li> </ul>

Source: Audit Scotland

7. As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 as income is received solely from the Scottish Government.

## Reporting arrangements

8. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**9.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**10.** 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. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**11.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December.

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## Exhibit 2

### 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	12 March 2021	Agreed by correspondence
Management Report	10 May 2021	18 May 2021
Independent Auditor's Report	20 October 2021*	19 October 2021
Annual Audit Report	20 October 2021*	19 October 2021

\* These dates represent when the independent auditor's report will be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the October committee to enable them to be considered.

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### Audit fee

**12.** The proposed audit fee for the 2020/21 audit of Social Security Scotland is £404,390 (2019/20: £155,165). The increase reflects the growth in Social Security Scotland as the majority of benefit streams were devolved on 1 April 2020 and the additional complexity this brings for the audit approach. We have also considered the risk exposure of Social Security Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package, on 12 July 2021.

**13.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

### Responsibilities

#### Audit and Assurance Committee and Accountable Officer

**14.** Audited bodies have 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 successfully deliver their objectives.



**15.** The audit of the annual report and accounts does not relieve management or the Audit and Assurance Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

**16.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard. 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 arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

**17.** There have been a number of changes to the audit team. Carole Grant will be taking over the Audit Director role from Mark Taylor, and Pauline Gillen will be joining the team as the Senior Audit Manager. The rest of the audit team remains unchanged.

# Audit scope and timing

## Annual report and accounts

**18.** The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Social Security Scotland and the associated risks
- assessing the key systems of internal control, and establishing the impact of any identified weaknesses
- identifying major transaction streams, balances and areas of estimation and understanding how Social Security Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2021 and of its net operating costs for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM;
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

**20.** We shall also express an opinion on the regularity of the expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

## Statutory other information in the annual report and accounts

**21.** We also review and report on statutory other information published within the annual report and accounts including the performance report, accountability report including the governance statement and the staff and remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**22.** We also review the content of the annual report and accounts for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Materiality

**23.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**24.** We calculate materiality at different levels as described below. The calculated materiality values for Social Security Scotland are set out in [Exhibit 3](#).

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### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 21 based on the latest budget information as at September 2020.	£35 million
<b>Performance materiality</b> – 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 calculated performance materiality at 60% of planning materiality.	£21 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.1 million

Source: Audit Scotland



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## Timetable

**25.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Working paper checklist	12 April 2021
Submission of unaudited annual report and accounts with working papers package	12 July 2021
Receipt of updated annual accounts for agreement of early audit changes	27 August 2021
Latest date for signing Scottish Government consolidation return	11 September 2021
Issue of draft annual audit report for clearance	22 September 2021
Latest date for final clearance meeting with Head of Finance	30 September 2021
Agreement of audited unsigned annual report and accounts Issue of annual audit report, letter of representation and proposed independent auditor's report	8 October 2021
Consideration of audited annual report and accounts and audit reporting by those charged with governance	19 October 2021
Independent auditor's report signed	20 October 2021

Source: Audit Scotland

## Internal audit

**26.** Internal audit is provided by Scottish Government Internal Audit Directorate overseen by the Director of Internal Audit. As part of our planning process we carried out an early assessment of the internal audit function and concluded that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

### Using the work of internal audit

**27.** International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. From our initial review of internal audit plans we will place reliance on the work completed on residency.

**28.** Although not placing formal reliance we will review the work completed on Carer's Allowance Supplement, Best Start Grant, Young Carers Grant and Funeral Support Payment in depth reviews.

## Audit dimensions

**29.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

### Financial sustainability

**30.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

### Financial management

**31.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether Social Security Scotland can demonstrate the effectiveness of its budgetary control systems in communicating accurate and timely financial performance
- how Social Security Scotland has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

## Governance and transparency

**32.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether Social Security Scotland can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by the DWP)
- whether there is effective scrutiny, challenge and transparency of the decision-making
- the availability of key committee papers and minutes on the website
- the quality and timeliness of financial and performance reporting.

## Value for money

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Social Security Scotland can demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered.
- that outcomes are improving.

## Best Value

**34.** The Accountable Officer of Social Security Scotland has a duty to ensure that arrangements are in place to secure best value. We will review and report on these arrangements.

## Independence and objectivity

**35.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**36.** The engagement lead (i.e. appointed auditor) for Social Security Scotland is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Social Security Scotland.

## Quality control

**37.** International Standard on Quality Control 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**38.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**39.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Social Security Scotland

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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