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Directorate for Internal Audit and Assurance

Internal Audit Report

Social Security Scotland 2022-23

Debt Management Arrangements

Directorate for Internal Audit and Assurance

Issue Date: 21-11-2022

Audit Personnel

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Report Distribution

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* Final Report only

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1. Introduction

1.1 Introduction

This internal audit review of **Debt Management Arrangements** formed part of the Audit Plan agreed by the Accountable Officer and noted by the Audit and Assurance Committee on **March 2022**. The Accountable Officer for **Social Security Scotland** is responsible for maintaining a sound system of governance, risk management and system of internal control that supports the achievement of the organisations policies, aims and objectives.

1.2 Audit Scope

The scope of this review was to evaluate and report on the controls in place to manage the risks surrounding Social Security Scotland's Debt Management Arrangements.

The agreed Terms of Reference for this review is attached at Annex B.

1.3 Assurance and Recommendations

Assurance Category	**Reasonable**		
Recommendations Priority	**High**	**Medium**	**Low**
	1	**1**	**0**

Our review has identified one high and one medium recommendations. A reasonable assurance rating has been provided. Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.

The rationale for this is that the circumstances in which Social Security Scotland will recover a debt are clearly defined, the debt management system and procedures are in place, with additional Quality Assurance checks. However, it should be noted that we did consider providing limited assurance due to there still being a critical dependence on clerical rather than automated processes within the

Debt Case Management System. Therefore, current arrangements will not be able to efficiently process an increased debt recovery volume which is expected as Social Security Scotland's case load and the number of benefits delivered continues to grow.

Findings are summarised against recommendations made in the Management Action Plan.

Full details of our findings, good practice and improvement opportunities can be found in section 3 below.

Please see Annex A for the standard explanation of our assurance levels and recommendation priorities.

2. Management Action Plan

1.1 Management Action Plan

Our findings are set out in the Management Action Plan below

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
1	**Issue**: **Reliance on manual processing** There is an urgent need to increase automation This should be undertaken now, when there is opportunity to do so, before the volume of recoverable debt significantly increases. Examples of manual processes which should be automated include: • processing client debt payments received and recording progress updates on systems. • identification of lapsed payment plans. • system enforced segregation of duty for debt write-off, in line with the schedule of delegated authority for debt write-off; and, • write-off of debt where there is no requirement to collect (REDACTED).	The opportunity to increase automation and improve processes, documentation and training should be undertaken now, when there is opportunity to do so, before the volume of recoverable debt to be recovered significantly increases.	**H**	**Response: Accepted** **Action:** Documentation of processes in place and training will be taken forward during 2023. **Action Owner:** REDACTED We agree that appropriate automation of processes is desirable. Debt system development time is scheduled by the Social Security Programme for April and November 2023. Given finite resources this is unlikely to deliver the levels of automation recommended. Manual	End of 23-24. TBC

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	Risk: A failure to establish appropriate policies, procedures and guidance leading to an inconsistent or ineffective approach to debt management, increasing the possibility that identified benefit overpayments will not be suitably recovered resulting in financial loss and reputational damage. Ineffective or inefficient debt recovery processes. Insufficient or ineffective systems for debt recovery.			processing will require to continue to be utilised until development time allows fuller automation. **Action Owner:** REDACTED	
2	**Issue**: **Process documentation is not regularly reviewed** Failure to review all documentation and benefit specific guidance notes for existing processes, to ensure they are up to date, incorporate best practice and compliant with relevant legislation changes, including documentation required to recover debt arising from Child Disability Payments, when requirements are confirmed.	All existing documentation and benefit specific guidance notes need to be reviewed now that debt collection work has recommenced. Each approved document	**M**	**Response: Accepted** **Action:** Where finalised policy approaches are available, we will review guidance and documentation to ensure it is fit for purpose. **Action Owner:** REDACTED	End of 23-24.

No.	Issue & Risk	Recommendation	Priority	Management Response & Action Owner	Action Date
	These changes should be incorporated into training packages Failure to have document version control (listing changes made, who reviewed and authorised the changes and next planned review date) or store all approved documentation in a location for easy staff access and training purposes. **Risk:** A failure to establish appropriate policies, procedures and guidance leading to an inconsistent or ineffective approach to debt management, increasing the possibility that identified benefit overpayments will not be suitably recovered resulting in financial loss and reputational damage.	requires version control and stored in a location for easy staff access and training purposes.			

3. Findings, Good Practice and Improvement Opportunities

3.1 Good Practice – Remit 1 - Policy, Guidance and Training

Area of Good Practice 1

3.1.1 There is a clear definition of roles and responsibilities. Social Security Scotland is authorised to collect debt arising, from recoverable benefit claims, in the following circumstances:

- Social Security benefit has been devolved to the Scottish Government.
- where there is a legal basis to do so.
- REDACTED
- the options of using a debt recovery agent or of deducting debt due from other benefits received, where appropriate, is under consideration; and
- where recovery can be justified after an affordability assessment has been completed.

3.1.2 Debt cannot be recovered if it is decided the overpayment is the fault of Social Security Scotland or some other Government agency. REDACTED. This would allow the Debt Recovery team to focus on recoverable debt.

Area of Good Practice 2

3.1.3 Specific training is in place for Social Security Scotland staff directly involved in Social Security Scotland debt recovery. There is clear guidance on the circumstances under which Social Security Scotland will seek to recover a debt; and there is general awareness training for Social Security Scotland staff on fraud identification (most recently undertaken in August 2022).

3.2 Good Practice – Remit 2 - Debt Recovery Processes

Area of Good Practice 1

3.2.1 An error report is produced on a monthly basis following the automated transfer of recoverable debt from the Social Program Management (SPM) system which is used to administer benefits, and the Debt Management System, once a debt has been identified. There are control totals to reconcile movements between the two systems.

Area of Good Practice 2

3.2.2 Social Security Scotland has 12 standard Operating Procedures covering objectives and methods of the debt recovery team. In addition, there are a number of benefit-specific practice notes to assist staff.

Area of Good Practice 3

3.2.3 The system functionality of the Debt Management System is explained to allow users to use the system and understand its control requirements such as segregation of duty for debt write off decisions. This is a manual process for debt recovery, except for Funeral Support Payments, when the deceased's estate has insufficient funds to recover Funeral Support Payments made.

Area of Good Practice 4

3.2.4 All five payment types are operational (Bank Transfer, Debit card, Direct Debit, online/telephony and Standing Order). Additionally, the system has the ability to process any cheques received.

Area of Good Practice 5

3.2.5 The Debt Management Team has a dedicated Quality Assurance team which undertakes both random testing on transactions during the month and monitors new employees to ensure debt recovery training has been understood.

3.2.6 The Quality Assurance team has additional opportunity to review known problem areas such as use of the code 'no legal basis for debt collection' to confirm its use is restricted to the correct benefits. Also, in the absence of system enforced segregation of duty for debt write off, the Quality Assurance team can sample test write-offs to ensure the Debt Recovery Team Leader has been contacted to review and authorise debt write off.

3.2.7 Social Security Scotland has taken swift action to reconfigure user access rights and restrict the debt write off option to the Debt Recovery team only.

3.3 Good Practice – Remit 3 - Monitoring and Reporting

3.3.1 An Annual update on debt logged and recovered for the financial year 21/22, was presented to the Audit and Assurance Committee in May 2022.

3.3.2 Monthly Debt Management Information and quarterly updates are also supplied to the Executive Team.

3.3.3 Age analysis of debt and review of collection strategy, including consultation with the Minister, is ongoing.

3.4 Improvement Opportunities – Remit 1 - Policy, Guidance and Training

Area of Improvement 1

3.4.1 Since the resumption of recoverable debt collection in Quarter 1 of 2022/23, after the Covid pandemic, many processes have continued to be clerical rather than automated processes (recording debt collection activities and correspondence, reconciling/applying payments received and identification of payment plans that have subsequently fallen into arrears). REDACTED Unless related debt recovery activities are automated, current processes will not be sustainable and Social Security Scotland will not be able to support a larger volume of debt recovery.

See recommendation 1

Area of Improvement 2

3.4.2 Roles and responsibilities for debt write off and authority limits REDACTED should be created to provide guidance for staff.

See recommendation 2

Area of Improvement 3

3.4.3 REDACTED.

3.5 Improvement Opportunities – Remit 2 - Debt Recovery Processes

Area of Improvement 1

3.5.1 Social Security Scotland has acknowledged that existing documentation and guidance notes need to be indexed, reviewed and have version control put in place. For example, including Child Disability Payment. Also, all documentation should be stored in a standard location, such as the Knowledge Hub, to allow staff easy access and for training purposes.

See recommendation 2

Area of Improvement 2

3.5.2 Automation of the current manually based process for reconciling monies received to pay debt REDACTED

Without which:

- error or processing delays are more likely, should the volume of payment plans increase; and
- identification of lapsed payment plans will fail and therefore corrective action will not be taken.

See recommendation 1

3.5.3 Additional training is required to ensure the notes staff record on action taken to set up a debt recovery payment plan and recover lapsed payment plans are recorded on the systems used.

See recommendation 2

Area of Improvement 3

3.5.4 Debt Write off - no system enforced second side review requirement for segregation of duties in debt write off (other than Funeral Support Payments) and user access rights previously did not restrict debt write off to the debt team. Reconfiguration of user access rights has now mitigated this last issue.

See recommendation 1

3.6 Improvement Opportunities – Remit 3 - Monitoring and Reporting

None noted

Annex A Definition of Assurance and Recommendation Categories

Assurance Levels

Substantial Assurance **Controls are robust and well managed**	Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.
Reasonable Assurance **Controls are adequate but require improvement**	Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.
Limited Assurance **Controls are developing but weak**	There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.
Insufficient Assurance **Controls are not acceptable and have notable weaknesses**	There are significant weaknesses in the current risk, governance and/or control procedures, to the extent that the delivery of objectives is at risk. Exposure to the weaknesses identified is sizeable and requires urgent mitigating action.

Recommendation Priority

High	Serious risk exposure or weakness requiring urgent consideration.
Medium	Moderate risk exposure or weakness with need to improve related controls.
Low	Relatively minor or housekeeping issue.

Annex B – Terms of Reference

1. Introduction

1.1. This review forms part of our planned audit coverage set out in our Annual Internal Audit plan issued on 25 March 2022 and agreed by the Accountable Officer and noted by the Audit and Assurance Committee.

1.2. An internal audit of Debt Management was previously undertaken in 2020/21 where we provided limited assurance due to a number of weaknesses identified in relation to Social Security Scotland's Debt Management Controls. The weaknesses identified related to policy and guidance; debt recovery arrangements; segregation of duties; management oversight and quality assurance; and monitoring and reporting. Since the original audit a follow up has been undertaken where we noted that of the one high and three medium priority recommendations made two had been fully implemented and two were partially implemented.

1.3. This review will follow on from the work undertaken in 2020/21 to assess the progress that has been made since the previous internal audit and focus on the processes for recording and calculating debt and how this is then managed going forward to ensure efficient and effective recovery of public funds.

1.4. Due to Adult Disability Payment only being in the pilot phase, debts in relation to Adult Disability Payment will not be included in the scope of this review.

1.5. The Social Security Scotland Strategic Issues Log includes the following Issues related to this review:

Issue: Service design for the routeways for clients to challenge the debt determination without application are not clear.

Cause: Late policy development and a change to Scottish Government Legal Directorate advice (elements of decisions that the client had the right to challenge were changed without providing guidance on how to address). Lack of capacity in Service Design to respond to this due to competing priorities.

Impact: Failure to meet statutory timescales for work, reputational damage exposure, anticipated increase in client complaints and appeals.

Issue: Service design for routeway to challenge overpayment and underpayment, including liability are not clear.

Cause: Late policy development and a change to Scottish Government Legal Directorate advice (elements of decisions that the client had the right to challenge were changed without providing guidance on how to address). Lack of capacity in Service Design to respond to this due to competing priorities.

Impact: Failure to meet statutory timescales for work, reputational damage exposure, anticipated increase in client complaints and appeals.

REDACTED

Budgetary responsibility for administrating this benefit is expected to come to Social Security Scotland and therefore accountable for any associated financial loss.

1.6. The Finance and Corporate Services Divisional Issues Log also includes the following issue which is relevant to this review:

Issue: If there is a high incidence of claim error cases in the benefit caseload which are not fully resolved. Then there will be a large number of unreleased underpayments and/or untreated overpayments. Resulting in failure to pay clients their full entitlement, inability to identify debts which should be recovered, and inaccurate reporting for accounting which may lead to account qualification.

1.7. We held a planning meeting on 15th June with the Head of Error Control and Debt Management and the Head of Fraud and Error Resolution to discuss this audit and the proposed scope of our review.

1.8. Our key risks below have been developed through these discussions and our knowledge of Social Security Scotland and its objectives.

2. Scope

2.1. To evaluate and report on the controls in place to manage the risks surrounding Social Security Scotland's Debt Management Arrangements.

2.2. It should be noted that the identification of debt is not within the scope of this review as this element is not undertaken by the Debt Management Team. However,

we will consider the referral process with an aim to consider the extent to which debts are referred to the Debt Management Team. The Debt Management team only intervene based on referrals from other areas of the business.

2.3. Remit Item 1 – Policy, Guidance and Training

To ensure that there is a suitable Debt Management policy in place, effective processes have been established and appropriate guidance and training supports delivery of the Debt Management policy.

Key Risks:

- A failure to establish appropriate policies, procedures and guidance leading to an inconsistent or ineffective approach to debt management, increasing the possibility that identified benefit overpayments will not be suitably recovered resulting in financial loss and reputational damage.
- Ineffective training for staff and poor communication of guidance and processes, leading to lack of staff knowledge and an inability to effectively recover monies from clients, resulting in financial loss and reputational damage.

2.4. Remit Item 2 – Debt Recovery Processes

Assessing the processes and systems in place for pursuing repayment of debts to provide assurance on their effectiveness. As part of this we also will undertake some substantive testing to confirm compliance with the agreed processes.

Key Risks:

Financial loss or reputational damage due to:

- Benefit overpayments not being referred to the Debt Management Team and therefore recovery actions are not undertaken;
- Ineffective or inefficient debt recovery processes;
- Insufficient or ineffective systems for debt recovery;
- Non-compliance with debt recovery arrangements;
- Ineffective arrangements for quality assurance leading to inconsistent or non-compliant debt management arrangements being undertaken.

2.5. Remit Item 3 – Monitoring and Reporting

Ensuring there are adequate mechanism’s in place for monitoring and reporting on debt and debt recovery within Social Security Scotland.

Key Risks:

- Insufficient, inaccurate or out of date management information relating to debt, leading to ineffective reporting, resulting in inaccurate information being provided to management and the Board.

3. Approach

3.1. We will undertake the audit in compliance with the Internal Audit Charter and Memorandum of Understanding agreed between Internal Audit and Social Security Scotland.

3.2. At the conclusion of the audit a customer satisfaction questionnaire will be issued to the main client audit contact. Internal Audit appreciate feedback and to facilitate continuous improvement, we would be grateful if you could complete and return the questionnaire.

3.3. Management are reminded of our need for timely access to people and responsiveness to information requests, to enable the reporting timetable to be met.