Social Security Scotland

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for Social Security Scotland and the Auditor General for Scotland

October 2024

Contents

Key messages

2023/24 annual report and accounts

1 We qualified our opinion on the regularity of expenditure and income because estimated overpayments in the benefits delivered by the Department for Work and Pensions through agency agreements were £42.4 million. This expenditure was not incurred in accordance with the applicable enactments.

2 All other audit opinions are unmodified.

Financial management

3 Social Security Scotland was responsible for £5.2 billion of benefit payments in 2023/24, which was £9.1 million (or 0.2 per cent) above forecast.

4 Appropriate arrangements are in place to secure sound financial management. Social Security Scotland spent £264.9 million on operating expenditure which was £4.8 million (or 1.8 per cent) below budget. This related to planned savings in line with Scottish Government spending controls.

5 Social Security Scotland and the Scottish Government Social Security Programme collaborate to prioritise improvements to the benefit case management system. However, there is not the capacity to make all the improvements that are required.

6 An estimate of the level of official error that exists within Best Start Foods is in development and builds on the learning from the Scottish Child Payment exercise. Significant work is still required for Social Security Scotland to measure the fraud and error that exists within the full range of benefits.

Financial sustainability

7 The 2024/25 budget was set at £6.5 billion based on Scottish Fiscal Commission independent forecasts and recognises the uncertainty within the forecasted benefit streams which are demand led.

8 Social Security Scotland now delivers fourteen benefits that support people across Scotland – seven of which are only available in Scotland. Annual benefit expenditure is forecast to be significantly higher than the funding received from the UK Government.

9 Social Security Scotland and the Scottish Government Social Security Programme have worked together to agree the allocation of transition funding for 2024/25. However, there is still uncertainty over the funding and cost of services that will transition to Social Security Scotland when the programme closes.

Vision, leadership, and governance

10 Social Security Scotland has appropriate governance arrangements in place and continues to make changes to these arrangements to support decision making across the organisation.

11 Social Security Scotland recognises the risk of cyber security to the organisation but some improvements are required.

Use of resources to improve outcomes

12 Social Security Scotland is developing a performance and quality framework. This work will provide a link with National Outcomes, the Scottish Government Social Security Programme's Measurable Improvement Strategy and the Charter Measurement Framework.

13 The processing times for Child Disability Payment and Adult Disability Payment have improved during 2023/24.

Introduction

1. This report summarises the findings from the 2023/24 audit of Social Security Scotland. The scope of the audit was set out in the Annual Audit Plan presented to the 27 February 2024 meeting of the Audit and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Social Security Scotland's annual report and accounts
- conclusions on the following wider scope areas that frame public audit as set out in the *Code of Audit Practice 2021:*
    - Financial Management
    - Financial Sustainability
    - Vision, Leadership, and Governance
    - Use of Resources to Improve Outcomes.

2. This report is addressed to the Audit and Assurance Committee of Social Security Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. I, Pauline Gillen, have been appointed by the Auditor General for Scotland as auditor of Social Security Scotland for the period from 2022/23 until 2026/27.

4. My team and I would like to thank Audit and Assurance Committee members and Social Security Scotland staff, for their cooperation and assistance in this year's audit.

Responsibilities and reporting

5. Social Security Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the account's direction from the Scottish Ministers. Social Security Scotland is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

6. My responsibilities as the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice

2021, supplementary guidance and International Standards on Auditing in the UK (ISAs).

7. Weaknesses or risks identified are only those which have come to the attention of the audit team during our normal audit work and may not be all that exist. Communicating these does not absolve management of Social Security Scotland from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at Appendix 1. It sets out specific recommendations, the responsible officers, and dates for implementation.

Arrangement for the delivery of benefits

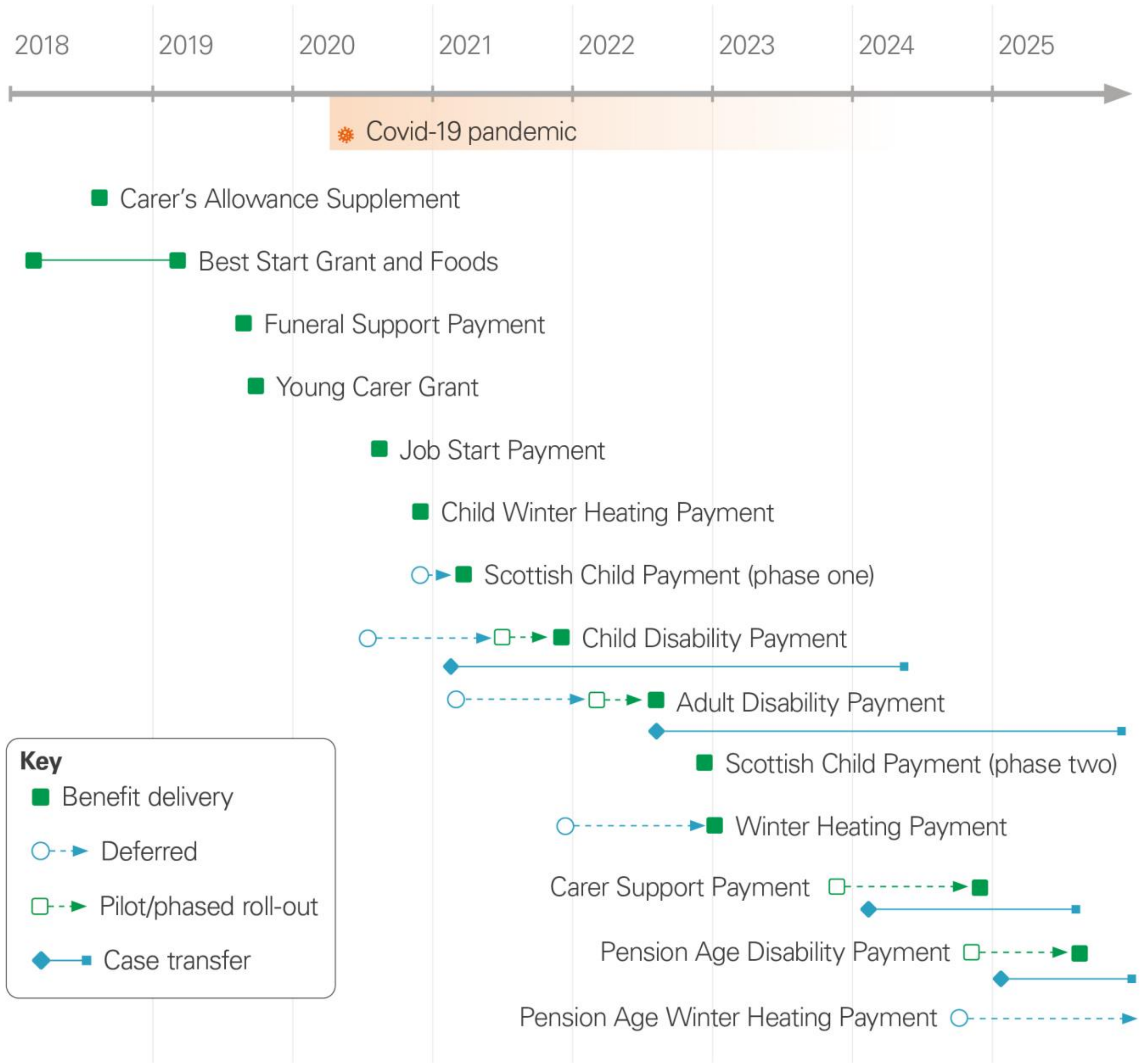
9. Social Security Scotland is an executive agency of the Scottish Government. The Scottish Government set up a Social Security Programme (the programme), within its social security directorate, to manage the implementation of the devolved benefits.

10. The programme is responsible for designing and implementing benefits and the supporting systems and processes needed to administer them. Social Security Scotland depends largely on the programme for the processes and digital systems it needs to deliver its part of the Scottish social security system in the way intended by the Scottish Government. The programme delivery life cycle ends in 2026 (programme closure) and responsibility for investment in the future development and management of the processes and systems that enable the ongoing delivery of social security payments will transition to Social Security Scotland and other parts of the Scottish Government.

11. The Scottish and UK Government agreed a phased approach to the devolution of the social security powers to support a safe and secure transition. Legislative competence for the powers was devolved through the Scotland Act 2016, allowing the Scottish Government to develop the necessary legislation. Executive competence, the point where administrative responsibility and financial accountability transfers to Social Security Scotland, for all benefits transferred by 1 April 2020.

12. Exhibit 1 outlines the timeline for delivering devolved benefits. Social Security Scotland now delivers fourteen benefits that support people across Scotland – seven of which are only available in Scotland.

Exhibit 1
The timeline for delivering the devolved benefits



Note 1: Employer Injury Assistance remains in the consultation phase, Employment Injury Assistance delivery – next steps: consultation.

Note 2: Best Start Grant includes Best Start Pregnancy and Baby, Early Years and School Age.

Source: Audit Scotland using information from the Scottish Government and Social Security Scotland

Auditor Independence

13. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that I have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £438,680 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

14. The annual audit adds value to Social Security Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual report and accounts

Public bodies are required to prepare annual reports and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

We qualified our opinion on the regularity of expenditure and income because estimated overpayments in the benefits delivered by the Department for Work and Pensions through agency agreements were £42.4 million. This expenditure was not incurred in accordance with the applicable enactments.

All other audit opinions are unmodified.

We qualified our audit opinion on the regularity of benefit expenditure

15. The annual report and accounts for the year ended 31 March 2024 were approved by the Accountable Officer on 1 October 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

16. We qualified our opinion on the regularity of benefit expenditure delivered by the Department for Work and Pensions totalling £3.2 billion as we consider the estimated level of overpayments attributable to fraud and error of £42.4 million to be material to our opinion on the accounts.

- all other expenditure and income was applied in accordance with applicable enactments and guidance issued by Scottish Ministers
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

17. There is an inherent risk of fraud and error in any social security system that is driven by individuals' entitlement to benefits. The system is complex and can be difficult to navigate as each benefit has its own individual regulations and assessment criteria.

18. The 2023/24 accounts of Social Security Scotland include benefit expenditure of £3.2 billion delivered by the Department for Work and Pensions through agency agreements. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is instead reliant on the Department for Work and Pensions' annually published estimates.

19. Estimated levels of overpayments of Personal Independence Payment and Disability Living Allowance were reviewed in 2023/24. All other rates have been rolled forward or updated with a more appropriate proxy. Exhibit 2 outlines the estimated overpayment rates for the benefits that are delivered by the Department for Work and Pensions, ranging from 0.4 to 5.2 per cent of expenditure.

Exhibit 2

Estimated levels of fraud and error overpayments in benefits delivered by the Department for Work and Pensions

Benefit	Expenditure 2023/24	Overpayments estimate %, review date (previous review)	Monetary value of overpayments
Personal Independence Payment (PIP)	£1,690.1m	0.4%, 2023/24 (1.1 %, 2022/23)	£6.8m
Disability Living Allowance (DLA)	£444.5m	0.5%, 2023/24 (1.9%, 2004/05)	£2.2m
Attendance Allowance	£659.2m	2.2%, 2021/22	£14.5m
Carer's Allowance	£357.1m	5.2%, 2019/20	£18.6m
Industrial Injuries Disablement Scheme	£81.4m	0.4%, PIP proxy	£0.3m
Severe Disablement Allowance	£5.6m	0.8%, ESA[1] proxy	£0.0m
Total	**£3,237.9m**	**0.4% - 5.2%**	**£42.4m**

1. Employment Support Allowance

Source: Audit Scotland using information from Fraud and error in the benefits system: financial year 2023 to 2024 estimates

20. We have reviewed the fraud and error rates and concur with Social Security Scotland's view that they are the best available estimate of the fraud and error that exists in the Scottish caseload for these benefits.

21. The benefits delivered by the Department for Work and Pensions continue to be regulated by UK legislation, whereby a person is entitled to the benefit if they meet the eligibility criteria. Any payment made to a person who is not entitled to it, does not comply with the legislation.

22. We have qualified our regularity opinion as the estimated level of overpayments attributable to fraud and error in the benefits delivered by the Department for Work and Pensions of £42.4 million is considered material. The expenditure resulting from such overpayments was not incurred in accordance with the relevant legislation and regulations. Key factors considered in reaching this conclusion are both quantitative and qualitative and include: the significant parliamentary and public interest that fraud and error in the social security system attracts and the substantial breach of our performance materiality level (Exhibit 3) based on latest available rates.

23. The same regularity issue does not affect the benefits administered by Social Security Scotland. This is due to the different legislation which applies to these benefits and which requires Social Security Scotland to make a payment where it has determined someone is eligible. Any payment in line with a determination is deemed to comply with the legislation, irrespective of whether this has been based on incorrect or fraudulent information.

Overall materiality was assessed at £54 million

24. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

25. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and is summarised in Exhibit 3.

Exhibit 3
Materiality values

Materiality level	Amount
Overall materiality	£54 million
Performance materiality	£33 million
Reporting threshold	£500,000

Source: Audit Scotland

26. The overall materiality threshold was set with reference to gross expenditure which we judged as the figure most relevant to the users of the financial statements.

27. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our risk assessment that confirmed no significant changes in business activities, accounting system and systems of internal control.

28. It is my responsibility to request that all misstatements are corrected other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

29. Our audit approach for the 2023/24 financial statements included consideration of an audited financial summary prepared by the Department for Work and Pensions. The financial summary captured all the transactions and balances for the benefits delivered by the Department for Work and Pensions, on behalf of Social Security Scotland, during 2023/24.

30. We have reviewed the findings from the audit of the financial summary and assessed the impact on our audit:

- The Department for Work and Pensions prepared an estimate of omitted, pending and potential debt to support the audit of the financial summary. This debt, estimated at £1.7 million, is reported as an unadjusted error. It is debt that has yet to be referred to Debt Management due to errors by referral staff, debt that is in the process of referral, or a situation where information has been received by the Department for Work and Pensions but a referral to Debt Management has not been confirmed. The accounting policies state that Social Security Scotland does not account for omitted, pending or potential debt and therefore there is no impact on the audited financial statements.

- Due to an issue with the flagging of Scottish claimants within the Department for Work and Pensions debt system, £7.5 million of Scottish debt balances were incorrectly classified as UK debt (Exhibit 4, item 2).

- Benefit accruals estimation – there is a known simplification in the benefit accruals report, which pro-rates the total invoice amount over the number of days pre-year end and which results in a small difference when the benefit uprating in April occurs during the period covered by the total benefit payment. Detailed testing of individual benefit accruals and extrapolation of the differences confirmed that the values involved are not material.

31. Under International Standard on Auditing (UK) 260, I communicate significant findings from the audit to the Audit and Assurance Committee, including my view about the qualitative aspects of Social Security Scotland's accounting practices.

32. The Code of Audit Practice also requires me to highlight key audit matters which are defined in International Standard on Auditing (UK) 701 as those matters judged to be of most significance.

33. Significant findings and key audit matters are summarised in Exhibit 4.

Exhibit 4
Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
1. Underlying fraud and error in benefit expenditure The 2023/24 financial statements include benefit expenditure of £3.2 billion delivered by the Department for Work and Pensions under agency agreements on behalf of Scottish Ministers. As disclosed in Note 19 of the financial statements there are estimated overpayments of £42.4 million paid to Scottish residents. This is based on estimates by the Department for Work and Pensions that overpayments, as a result of fraud and error in relation to each type of benefit, range between 0.4% and 5.2%. Overpayment as a result of fraud and error means the expenditure was not incurred in accordance with legislation specifying benefit entitlement.	We consider this level of overpayments to be material and have qualified our regularity opinion. This was judged to be a key audit matter.

Issue	Resolution
2. Department for Work and Pensions debt misclassification Due to an issue with the flagging of Scottish clients within the Department for Work and Pensions debt system, £7.5 million of Scottish benefit overpayment debt balances were incorrectly classified as UK debt. This was identified by the Department for Work and Pensions and corrected during 2024/25, but on the grounds of materiality a correction has not been made to the 2023/24 accounts.	This was corrected in May 2024, but not adjusted for in the 2023/24 accounts of Social Security Scotland or the Department for Work and Pensions on the grounds of materiality.
3. Measurement of expected credit losses for Social Security Scotland administered benefits The methodology used to estimate the impairment applied to the overpayment debt of each benefit is calculated based on historic trends. For benefits directly administered by Social Security Scotland, the debt level at the 31 March 2024 is £4.0 million which is an increase from £0.6 million in 2022/23. Social Security Scotland does not yet have a working impairment model for benefits receivable or overpayments. With benefit expenditure predicted to increase further in future years, this will become increasingly important.	Social Security Scotland considered the development of an impairment model in 2023/24 but due to limitations in data it was not deemed appropriate to implement this. An impairment model for benefits receivable and overpayments should be developed for use in future years. **Recommendation 1** (Appendix 1, action plan)
4. Pension information Accrued pension benefits for directors were not included in the annual report and accounts submitted for audit due to an exceptional delay in the calculation of these figures following the application of the public service pension remedy. Social Security Scotland updated the remuneration and staff report to reflect the late information from MyCSP, however this was not available for all named individuals. The 2023/24 Government Financial Reporting Manual (FReM) was revised to enable bodies to include a disclosure explaining why the information was not included in the 2023/24 annual report and accounts.	Social Security Scotland has included the required disclosure for the named individual that did not receive MyCSP information.

Source: Audit Scotland

Audit work responded to the risks of material misstatement we identified in the annual report and accounts

34. We have obtained audit assurances over the identified significant risks of material misstatement in the annual report and accounts. Exhibit 5 sets out the significant risks of material misstatement to the financial statements identified in the 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 5
Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
1.Risk of material misstatement due to fraud caused by management override of controls 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.	• 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. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	We undertook the assurance procedures as planned and found: • The journal authorisation control was not operating as expected, paragraph 45. • Management is not aware of inappropriate or unusual activity. • Detailed testing of journal entries and unusual transactions did not identify any errors. • There were no significant transactions outside the normal course of business. • The methodology used in preparing significant accounting estimates is reasonable. **Conclusion:** We did not identify any instances of management override of controls.
2. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by DWP Practice Note 10 extends the requirements of ISA 240 to include	• Assess the audited financial summary prepared by the Department for Work and Pensions. • Completion of 'agreed upon procedures' by the National Audit Office (NAO) on our behalf.	We undertook the assurance procedures as planned and found that: • The audited financial summary confirms the benefit expenditure that the fraud and error rates have been applied to in reaching the

Audit risk	Assurance procedure	Results and conclusions
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. 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.	• Review the estimates of error and fraud published by the Department for Work and Pensions and consider appropriateness for Social Security Scotland. • Review benefit expenditure against independent forecasts and investigate any significant variances.	estimated value of overpayments. • The National Audit Office report of factual findings confirms the reliability of the fraud and error rates. • The fraud and error rates published by the Department for Work and Pensions indicate overpayments of £42.4 million. • The Scottish Fiscal Commission's Forecast Evaluation Report adequately explains any variances from forecast. **Conclusion:** We have qualified our regularity opinion for benefit expenditure delivered by the Department for Work and Pensions.
3. Risk of material misstatement caused by fraud and error in benefit expenditure delivered by Social Security Scotland 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 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	• 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. • Assess the competence, capability and objectivity of the Analysis and Insights team. • Consider findings from the internal audit estimation of fraud and error report.	We undertook assurance procedures as planned and found that: • Some areas for improvement were identified in the controls over benefits administration. • Social Security Scotland is continuing to develop arrangements to estimate the level of official error in the benefits it administers. • Developments have been made in the arrangements for the prevention and detection of fraud and error. • We did not require to rely on the work of Analysis and Insights. • Internal audit's report on the monetary value of fraud and error was in line with our

Audit risk	Assurance procedure	Results and conclusions
impact on the audit opinion.	• Detailed testing of benefit payments.	audit findings and did not identify any significant issues. • No issues were identified through our detailed testing of benefit payments. **Conclusion:** Social Security Scotland continues to make progress towards understanding, detecting and preventing the fraud and error that exists in the benefits caseload that it administers. Appropriate disclosures have been included in the annual report and accounts.

An unadjusted misstatement of £7.5 million was identified

35. Other than the unadjusted misstatement outlined at Appendix 2 my audit identified no misstatements above the reporting threshold. Several amendments were agreed to the presentation and content of the performance report, accountability report and notes to the accounts as part of the audit process.

The unaudited annual report and accounts were received in line with the agreed audit timetable

36. The unaudited annual report and accounts were received in line with the agreed audit timetable on 21 June 2024. The working papers that accompanied the annual report and accounts were of a good standard. Regular communication and support from staff, including on-site working, helped the audit process run smoothly.

Social Security Scotland has made progress towards implementing our prior year audit recommendations

37. Social Security Scotland has made progress towards implementing most of the agreed prior year audit recommendations but further work is required. For actions not fully implemented, revised responses and timescales have been agreed with management, and are set out in Appendix 1.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Social Security Scotland was responsible for £5.2 billion of benefit payments in 2023/24, which was £9.1 million (or 0.2 per cent) above forecast.

Appropriate arrangements are in place to secure sound financial management. Social Security Scotland spent £264.9 million on operating expenditure which was £4.8 million (or 1.8 per cent) below budget. This related to planned savings in line with Scottish Government spending controls.

Social Security Scotland and the Scottish Government Social Security Programme collaborate to prioritise improvements to the benefit case management system. However, there is not the capacity to make all the improvements that are required.

An estimate of the level of official error that exists within Best Start Foods is in development and builds on the learning from the Scottish Child Payment exercise. Significant work is still required for Social Security Scotland to measure the fraud and error that exists within the full range of benefits.

Social Security Scotland benefit expenditure was £5.2 billion which was £9.1 million (or 0.2 per cent) above forecast

38. The main financial objective for Social Security Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. Social Security Scotland's budget consists of two elements: the expenditure on benefits and the operating costs of delivering those benefits.

39. Social Security Scotland has reported an outturn of £5,462.8 million against its overall budget for 2023/24, which was £29.7 million above forecast. The financial performance against fiscal resources is shown in Exhibit 6.

Exhibit 6
Performance against fiscal resource in 2023/24

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Operating expenditure (fiscal resource)	292.5	269.7	264.9	(4.8)
Capital	4.5	3.5	3.6	0.1
Depreciation	5.5	5.7	5.7	-
Total	**302.5**	**278.9**	**274.2**	**(4.7)**
Delivered by Social Security Scotland		1,950.5	1,925.4	(25.1)
Delivered by the Department for Work and Pensions		3,203.7	3,237.9	34.2
Total benefit expenditure		**5,154.2**	**5,163.3**	**9.1**
Provision for benefit underpayments		0.0	27.7	27.7
Benefit overpayment impairment writeback		0.0	(2.4)	(2.4)
Total	**302.5**	**5,433.1**	**5,462.8**	**29.7**

Source: Social Security Scotland annual report and accounts 2023/24

Budget processes and reporting were appropriate

40. Social Security Scotland's budget processes remain appropriate. The 2023/24 total budget increased by £1,119.2 million in comparison to the previous year. This increase mainly relates to the benefits delivered by Social Security Scotland. The most significant areas of additional expenditure in 2023/24 included:

- increased demand for adult disability benefits
- higher spend on Scottish Child Payment compared to prior year.

41. The movement between the original operating expenditure budget presented to the Executive Advisory Body on 18 April 2023 and the spring budget revision mainly relates to:

- transfer of £17.4 million to the programme for prioritisation works being delivered through the single prioritised backlog
- non-staff costs increased by £3.0 million to cover services transitioned from the programme
- planned savings in line with spending controls allowed £5.5 million to be returned to the Scottish Government.

42. Social Security Scotland relies on the Department for Work and Pensions to provide information on the provision for benefit underpayments. The information was not available until after the spring budget revision so no budget had been requested. Written approval was received from the Scottish Government for this overspend.

43. Although the financial outturn for the year is above forecast, this relates to benefit expenditure which is demand led and cannot be controlled in the same way as other budgets where spending limits can be set. The December 2022 Scottish Fiscal Commission forecasts were used to set the 2023/24 Scottish Budget. The Scottish Fiscal Commission publishes an annual forecast evaluation report that provides detailed analysis on reasons why benefit expenditure differs from budget forecast.

Capital expenditure reduced in 2023/24

44. Social Security Scotland had a capital budget in 2023/24 of £3.5 million. This is a decrease of £3.8 million when compared to 2022/23 and a decrease of £1.0 million when compared to the initial budget of £4.5 million. The initial budget was decreased due to £1.0 million being transferred to the programme for prioritisation work in the spring budget revision. The capital outturn for the year was £3.6 million and included expenditure on the refurbishment of Enterprise House, IT expenditure and IT software.

Our review of the systems of internal control identified some areas for improvement

45. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we identified some internal control weaknesses which could affect Social Security Scotland's ability to record, process, summarise and report financial and other relevant data and result in a material misstatement in the financial statements. In particular, we found internal control weaknesses relating to journal authorisation and the controls in place for reconciliations between the

Department for Work and Pensions system information and the Social Security Scotland general ledger.

46. As part of our final accounts audit we tested a sample of journals with a focus on significant risk areas. We did not identify any issues with the journal authorisation control in this sample.

47. Our testing also included a review of year end reconciliations between the Department for Work and Pensions and Social Security Scotland record of transactions and balances for devolved benefits. We noted some discrepancies in the benefit expenditure reconciliation and the prepayment reconciliation. Social Security Scotland made appropriate corrections and on this occasion there was no impact on the financial statements. If reconciliations are not performed accurately and subject to appropriate review then there is a risk that significant variances are not addressed.

Recommendation 2

Regular reconciliations performed between the Department for Work and Pensions and Social Security Scotland record of transactions and balances for devolved benefits should be subject to appropriate review.

48. From our walkthrough of the benefit system, it was noted that the benefits teams rely on manual processes to allocate work and track application progress. We also established that the extent of pre-payment approval checks by a decision team manager vary. We found no formal process for the review and calibration of decisions made and no process for dispute resolution when there are differing opinions on decisions and justifications.

49. These points were also identified by internal audit and outlined in the recent Child Disability Payment and Adult Disability Payment in-depth review reports that were presented to the May 2024 and August 2024 meetings of the Audit and Assurance Committee. Management accepted internal audit recommendations to further develop and improve the Social Programme Management (SPM) case management system to reduce the reliance on manual intervention and agreed to review the decision-making calibration to establish a more formal process.

50. We reported in our 2022/23 Annual Audit Report that further work is ongoing to review the disaster recovery strategy and, development and implementation of testing plans. Our review of the design and implementation of systems of internal control relating to IT in 2023/24 has confirmed that the process of updating the disaster recovery plan remains ongoing. Although progress has been made in testing disaster recovery scenarios, further work is required to test for recovery of a complete SPM outage.

Social Security Scotland has taken steps to prepare for the implementation of the Scottish Government's replacement HR and Finance system

51. The Scottish Government's legacy HR and Finance system will be replaced in October 2024 with Oracle Fusion Cloud. The Oracle Shared Services project is significant and was originally scheduled for completion in October 2023. Its implementation will impact the whole of the Scottish Government as well as the public bodies that use its systems, including Social Security Scotland.

52. Social Security Scotland has taken reasonable steps to prepare for the implementation of the new system. This includes regular engagement with Scottish Government, completion of the readiness assessment questionnaire, the appointment of a lead change officer, staff communications and training days.

Social Security Scotland and the Scottish Government Social Security Programme do not have the capacity to make all required improvements to the benefit case management system

53. The digital ecosystem that supports Social Security Scotland is comprised of many technology components and services. The main case management system used to administer benefits is Social Programme Management (SPM). It is an 'off the shelf' product that has been configured over several years using the Agile approach in conjunction with the programme. The fast pace of Agile development is achieved by focusing on the core 'must-have' system functionality (often referred to as Minimum Viable Product) to allow a benefit to be launched in an acceptable way and in line with the planned timescales. The fast pace of benefit implementations since 2017, as demonstrated in Exhibit 1, has contributed to the accumulation of technical debt across numerous systems and technologies. Technical debt is commonly understood to be a representation of the extra work arising from technical shortcuts taken in the technology implementation process, together with the natural ageing of systems through their expected lifecycle.

54. For several years we have identified a wider dimension audit risk associated with the configuration of the Social Programme Management (SPM) case management system, recognising that technical debt needs to be effectively managed. Last year, we noted the establishment of a single prioritised backlog and closer working between the Social Security Directorate and Chief Digital Office as positive developments, however, we have been advised that this will not fully eradicate the backlog of work or all technical debt by the end of the programme in 2026.

55. A period of embedding and enhancement was planned between benefit releases in 2023, and would have provided the Chief Digital Office and the programme with time to make required improvements to the system. However, priorities arising from the ongoing implementation of benefits, including case transfer, meant that this period did not materialise. Social Security Scotland and the programme have not had the capacity this year to resolve the technical debt linked to the SPM case management system at the pace required.

56. Social Security Scotland, led by its Chief Digital Information Officer, is exploring options to engage an independent third party to conduct a digital maturity assessment. The assessment is intended to cover the entire social security digital ecosystem, including the skills and capacity that exist within the Chief Digital Office to sustain the systems that it depends on beyond programme closure. This would include a valuation and assessment of the technical debt that exists, together with exploring options for technology consolidation and innovation such as Automation and Artificial Intelligence (AI).

Recommendation 3

Social Security Scotland should continue to work with the Scottish Government Social Security Programme to implement system improvements and demonstrate systems will be sustained beyond programme closure.

Social Security Scotland is continuing to develop arrangements to estimate the level of official error in the benefits it administers

57. Social Security Scotland published the findings from its pilot exercise to estimate the level of official error that exists within the Scottish Child Payment benefit caseload in November 2023. This included a lessons learned exercise that the Analysis and Insights team have used to inform its next exercise.

58. During 2023/24 Social Security Scotland carried out an exercise to estimate the level of official error that exists within the Best Start Foods benefit caseload. This is a full review covering a six month period, December 2023 to May 2024. The results from this exercise will be published as official statistics in development and will be available in November 2024.

59. Official error and client error can result in underpayments as well as overpayments. This should be considered when developing arrangements to estimate errors. Social Security Scotland should continue to develop an understanding of these errors and translate them into changes in the organisation to help reduce the occurrence in future benefit cases.

60. The Fraud and Error Resolution Unit and the Analysis and Insights teams have continued to make progress in understanding and estimating official error. Legislative change is planned to come in to effect in 2025 to allow client induced error and potential fraud to be estimated. Until that change comes into effect, estimation can only be completed for official error. Significant work is still required to measure the fraud and error that exists within the full range of benefits.

Recommendation 4

Social Security Scotland must continue to develop processes to measure the level of fraud and error within the range of benefits being delivered.

Developments have been made in the arrangements for the prevention and detection of fraud and error

61. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

62. The Social Security Scotland Fraud and Error Resolution Unit has continued to undertake error detection, correction and analysis work. This has included completion of proactive error detection exercises by the low income benefit error intervention team, and a newly established disability benefit error intervention team. The work has included targeted sampling exercises and correcting cases impacted by system faults. In 2023/24, 11,373 low income benefit cases and 559 disability benefit cases were corrected by the intervention teams, a 55% increase by volume in comparison with the previous year.

63. During 2023/24, the first applications were made to request directed surveillance to support Social Security Scotland's fraud investigation work and is being deployed when deemed appropriate and necessary, in line with legislation. This work is authorised under the Regulation of Investigatory Power (Scotland) Act and includes both physical and online surveillance.

64. There has been key system developments relating to counter fraud activities. A new fraud case management system is being developed to bring fraud intelligence management and fraud investigation within a single system. Work is also ongoing to introduce a new data analysis tool in 2024/25 to support fraud prevention and detection.

65. Social Security Scotland is currently limited to voluntary debt repayment arrangements to recover overpayments. It is developing a policy to support deductions from ongoing benefit awards when voluntary repayments have not been agreed.

66. Social Security Scotland has adequate arrangements in place to prevent and detect fraud or other irregularities. It should continue to deliver plans to make further improvements to the fraud, error and debt services.

National Fraud Initiative

67. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. In 2022, a pilot exercise was undertaken to identify any instances where clients received support but were not residing in Scotland, or where clients appear to have claimed benefits more than once (e.g. from more than one Scottish address). The pilot exercise included payments made in the three-month period from April to June 2021.

68. Around 45,000 lines of data relating to benefit payments were submitted for matching, resulting in the identification of 367 clients who appeared to be residing out with Scotland. Following review and corroboration of addresses by Social Security Scotland, there were 17 cases where clients were not entitled to benefits. Overpaid benefits of £16,450 were identified, a further £20,000 could have been paid out in relation to these claims over the remaining eligibility periods.

69. Despite the identification of fraud and error, the number and value of cases was not deemed sufficient to justify the inclusion of this match type in the main biennial NFI exercise in 2022/23. The intention is to run another pilot in 2024/25 which may also include Adult Disability Payments for the first time.

3. Financial sustainability

Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The 2024/25 budget was set at £6.5 billion based on Scottish Fiscal Commission independent forecasts and recognises the uncertainty within the forecasted benefit streams which are demand led.

Social Security Scotland now delivers fourteen benefits that support people across Scotland – seven of which are only available in Scotland. Annual benefit expenditure is forecast to be significantly higher than the funding received from the UK Government.

Social Security Scotland and the Scottish Government Social Security Programme have worked together to agree the allocation of transition funding for 2024/25. However, there is still uncertainty over the funding and cost of services that will transition to Social Security Scotland when the programme closes.

The 2024/25 budget has been set at £6.5 billion

70. The 2024/25 Social Security Scotland budget was approved by the Executive Team on 19 March 2024 with an operating budget of £322.2 million and a benefit expenditure budget of £6.1 billion.

71. This is an overall increase of £979.5 million, or 22 per cent, on the 2023/24 revised budget and mainly relates to benefit expenditure. This type of spend is demand led and the budget is based on independent forecasts prepared by the Scottish Fiscal Commission. The Benefit Forecasting Review Group continues to meet monthly to monitor in year benefit spend and forecasts.

Social Security Scotland expects operating costs and benefit expenditure to be delivered on budget in 2024/25

72. The latest financial monitoring report to June 2024 reported a £0.1 million underspend against operating budget. However, the forecast for the full year indicates operating costs will be delivered on budget. The revised budget includes a transfer of £8.8 million from the programme to fund services transitioning to Social Security Scotland in preparation for programme closure.

73. Benefit expenditure to June 2024 was reported as £1.4 billion, which is £30.6 million below plan. This is mainly due to processing times for Adult Disability Payment being different to what was previously assumed. The full year revised budget and forecast spend on benefit expenditure is unchanged.

Social Security Scotland and the Scottish Government Social Security Programme have worked together to agree allocation of transition funding for 2024/25

74. Our 2022/23 Annual Audit Report highlighted that funding for the capabilities and services transitioning from the programme to Social Security Scotland needs to be agreed and managed effectively. Social Security Scotland and the programme have worked together to identify the budget transfer required from the programme to support transition costs incurred by Social Security Scotland. It was agreed that an additional £8.8 million will transfer to Social Security Scotland at the 2024/25 autumn budget revision.

75. Part of the transition costs identified in 2024/25 are demand driven so there is a risk that the cost will exceed the transfer of funds that has been agreed. Social Security Scotland and the programme have committed to continue working together to consider the need for further transfers.

76. There is still a risk that the programme does not fund all costs for services expected to transfer, including staff. There is also a risk that future running costs associated with products and services that are yet to be delivered are not identified. This uncertainty will impact Social Security Scotland's financial plans into the future. The overall cost of transition needs to be well understood and managed between the programme and Social Security Scotland.

Recommendation 5

Social Security Scotland should work closely with the Scottish Government Social Security Programme to agree and manage the capabilities, services and funding that will transition when the programme closes.

Social Security Scotland faces increasing pressure to reduce operating expenditure

77. Similar to other public bodies Social Security Scotland faces increasing pressure to reduce non-essential spending. Staff costs represent the most significant element of the operating cost budget, which means there is limited flexibility in the budget in the short term. Social Security Scotland has developed a five-year financial plan providing forecasts for key areas of spending to 2028/29. This is supported by detailed expenditure forecasts and projected year-on-year changes.

78. Social Security Scotland adopt a strategic approach to the budget setting process. Staff modelling is used to understand resource requirements across the five year period which is then applied to staff cost forecasts. The finance team work with the Analysis and Insights team to understand the assumptions used and associated risks, using benefit forecasts to understand how many applications are expected. The modelling is compared to budget allocations across the next five year period to identify any gaps.

79. Financial and workforce planning is clearly aligned, and this is evident in both high level plans and routine finance reports, which show actual and projected staff costs in year against the headcount trajectory. Developments in financial and workforce planning is ongoing to ensure future operations are affordable. This will need to include the identification of recurring savings.

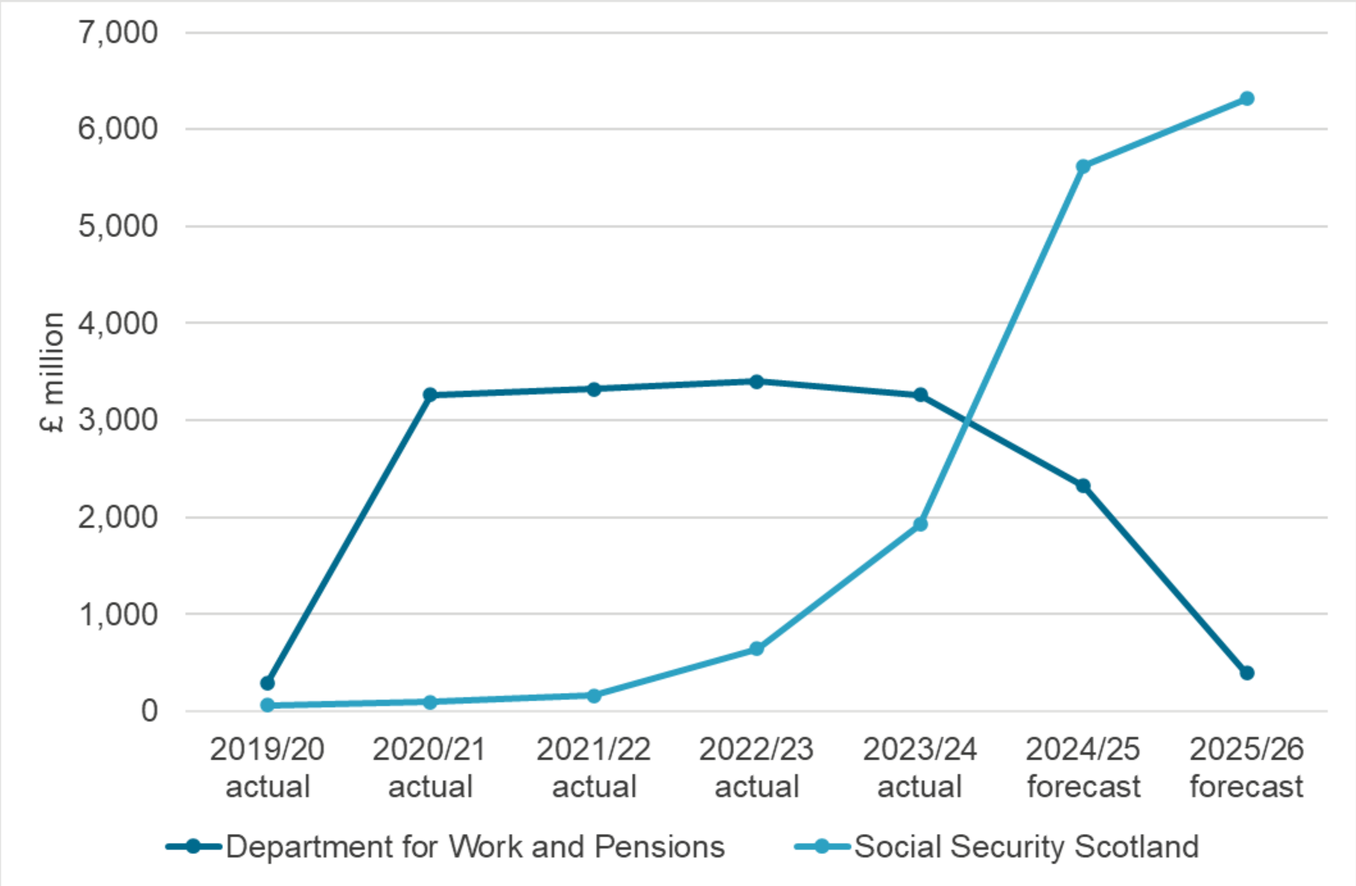
The number of benefits administered by Social Security Scotland will continue to grow until 2025

80. The implementation of new benefits has continued in 2023/24 with a phased roll-out of Carer Support Payment in November 2023 in the Western Isles, Dundee City and Perth and Kinross. Social Security Scotland is on track to launch the payment nationally across Scotland in autumn 2024.

81. Exhibit 7 shows forecast expenditure split by benefits administered by the Department for Work and Pensions and those administered by Social Security Scotland. By 2025/26, it is anticipated that the transfer process will be complete and Social Security Scotland will be responsible for administering all devolved benefits.

Exhibit 7

Actual and forecast devolved benefit expenditure administered by the Department for Work and Pensions and Social Security Scotland



Source: Social Security Scotland's audited accounts 2019/20 to 2023/24 and Scottish Fiscal Commission's December 2023 (revised April 2024) forecast

The implementation of Pension Age Winter Heating Payment has been deferred until 2025/26

82. The UK's Winter Fuel Payment was planned to be devolved to Scotland and replaced by Pension Age Winter Heating Payment in September 2024. However, following the recent UK Government decision to means test this benefit, the introduction of Pension Age Winter Heating Payment (the Scottish replacement benefit) has been deferred. The impact is that Winter Fuel Payment will be restricted to older people who receive relevant eligible benefits (e.g. pension credit) this winter.

83. The Scottish Government has reported that the UK Government's decision reduces the block grant adjustment associated with devolution of the UK's Winter Fuel Payment by an estimated £140-£160 million in 2024-25, nearly 90% of the cost of the Scottish Government's new replacement benefit. Social

Security Scotland is working to assess the impact of the delay on its own financial and workforce plans.

Annual benefit expenditure is forecast to be significantly higher than the funding received from the UK Government

84. Once the process of transfer of devolved benefits is complete and Social Security Scotland is responsible for all benefit payments, the scale of the financial challenge will be significant. Any spending above the funding received from the UK Government, through the social security block grant adjustments for corresponding UK benefits, must be met from other parts of the wider Scottish Budget.

85. The Scottish Fiscal Commission's latest forecasts from December 2023 (revised April 2024), project that annual benefit expenditure in Scotland will increase from £6.3 billion in 2024/25 to £8.0 billion in 2028/29. The report[1] explains that this is because of a UK-wide increase in the number of people receiving disability payments, the policy and operational changes to disability payments introduced by the Scottish Government and inflation.

86. Compared to December 2022, the social security spending forecast in 2024/25 has increased by £120 million. This reflects increased demand for disability payments and more successful applications than anticipated for Child Disability Payment. These upward pressures are partly reduced by a lower number of people receiving carer payments.

87. The Scottish Government has implemented policy and operational changes to improve the experience of people applying for its payments and with the aim of maximising take-up. The effect of these changes has seen an increase in benefit payments above the level of block grant adjustments funding received. Spending on social security payments with a block grant adjustment is estimated to exceed the funding received by £368 million in 2024/25.

88. The largest component of this is Adult Disability Payment, with spending estimated to be £300 million more than the block grant adjustment funding associated with Personal Independence Payment in 2024/25, with the gap rising to £491 million in 2028/29.

89. In addition, the Scottish Government has also introduced new payments which are only available in Scotland and so there is no block grant adjustment

[1] Scotland's Economic and Fiscal Forecast, Scottish Fiscal Commission, December 2023

funding for these benefits. These include Scottish Child Payment, Carer's Allowance Supplement and Child Winter Heating Payment. Spending on these payments is forecast to be £614 million by 2024/25.

90. By 2028/29, it is expected the Scottish Government will spend £1.5 billion more on social security than the funding received from the UK Government through the block grant adjustments.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Social Security Scotland has appropriate governance arrangements in place and continues to make changes to these arrangements to support decision making across the organisation.

Social Security Scotland recognises the risk of cyber security to the organisation but some improvements are required.

Social Security Scotland is updating some key governance documents

91. During 2023/24 Social Security Scotland has worked towards the objectives in its 2020-2023 Corporate Plan to achieve the principles set out in Our Charter (the Charter). The 2024-2027 Corporate Plan has recently been published.

92. The 2023-24 Business Plan was published in June 2023 and sets out the key activities for the year as ‘priorities’. Each priority details what will be delivered to ensure progress is made against commitments. It also includes information on how Social Security Scotland will report on each priority and measure the quality of the service it provides.

93. The Charter was created in 2018 and the Charter Measurement Framework was created the following year. The Social Security (Scotland) Act 2018 requires the Charter to be reviewed every five years. A review of the Charter took place during 2023 by the Scottish Government and Social Security Scotland. The review was informed by engagement with clients, external stakeholders, partners, and Social Security Scotland employees. A report setting out the findings from the research was published in March 2024.

94. The Social Security Scotland Framework Document sets out the accountability and governance framework. This also includes the context for the relationship between Social Security Scotland, Scottish Ministers, and the programme. This was first published in 2018 when Social Security Scotland was created. A revised Framework Document is in development to ensure it reflects any relevant changes.

Governance arrangements are appropriate

95. Social Security Scotland's governance arrangements have been set out in the governance statement in the annual report and accounts. We have reviewed these arrangements and concluded that they are appropriate.

96. Social Security Scotland continues to amend the governance structure to ensure it remains fit for purpose. The agency leadership team has been disbanded and former agency leadership team sub-groups now report directly to the Executive Team. This change aims to simplify decision making and focus on future challenges and opportunities.

97. In April 2024 a Chief Operating Officer role was created to support the Chief Executive. The Chief Operating Officer has responsibility for the main operational delivery areas, including a focus on client experience.

98. A Joint Executive Group was established between Social Security Scotland and the programme to allow for collective decision making, as part of transition and the move towards programme closure. Key activities for the group include formal agreement and continuous review of the single prioritised backlog.

Social Security Scotland recognises the risk of cyber security to the organisation and improvements are being implemented

99. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have the appropriate cyber security arrangements in place. Recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2023/24, we considered Social Security Scotland's arrangements for managing and mitigating cyber security risks.

100. Social Security Scotland recognises the risk that cyber security presents to its operations. The Digital Risk and Security Branch within Social Security Scotland has primary responsibility for cyber security. Internal audit carried out a follow-up review of their 2022/23 Cyber Security Governance audit and reported that further work is required to fully implement some of the audit recommendations. We will continue to monitor developments in this area.

Recommendation 6

Social Security Scotland should continue to review the cyber security arrangements that exist and implement identified improvements.

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5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

Social Security Scotland is developing a performance and quality framework. This work will provide a link with National Outcomes, the Scottish Government Social Security Programme's Measurable Improvement Strategy and the Charter Measurement Framework.

The processing times for Child Disability Payment and Adult Disability Payment have improved during 2023/24.

Social Security Scotland has developed an appropriate Best Value framework

101. Ministerial guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

102. The Charter Measurement Framework is the key measurement tool for annual performance reporting. It measures how well the social security system has delivered on the principles set out in the Social Security (Scotland) Act 2018 and expectations of the Charter.

103. Social Security Scotland use a balanced scorecard and a performance pack to measure and monitor organisation performance. This is updated on a monthly basis and presented to the Executive Team. The balanced scorecard is also considered by the Executive Advisory Body.

104. The Finance and Investment Forum was established in August 2023 to review business cases to ensure they deliver value for money. The forum also tracks progress with savings that have been agreed by the Executive Team.

Social Security Scotland is developing a performance and quality framework

105. During 2023/24 Social Security Scotland worked with the programme to develop a number of priorities and measurable initiatives to help deliver improvement in the disability benefits and across the organisation. The first measurable initiative is performance monitoring, with a focus on creating a strategic framework for performance and quality, that will be supported by key performance indicators.

106. A performance forum was established during 2023/24 to support performance management in Social Security Scotland. The remit of the forum includes monitoring performance across a range of measures and sharing findings with the Executive Team to support decision-making.

107. One of the key responsibilities of the forum is the development of a performance framework that will help link measurement of performance at organisation level and national outcome level. Social Security Scotland has advised that the 2024/25 business plan will include a priority initiative to develop a performance and quality framework by March 2025.

108. We reviewed the performance report in the 2023/24 Annual Report and Accounts as part of our audit. This met the requirements of the FReM and set out performance against the objectives in the 2023/24 Business Plan. The performance and quality framework, once established, can be used to enhance this section of the annual report and accounts with the inclusion of additional performance data and more detailed trend information as it becomes available.

Recommendation 7

Social Security Scotland should implement performance management arrangements that will allow an evidence-based assessment of performance to support decision making and help demonstrate value for money.

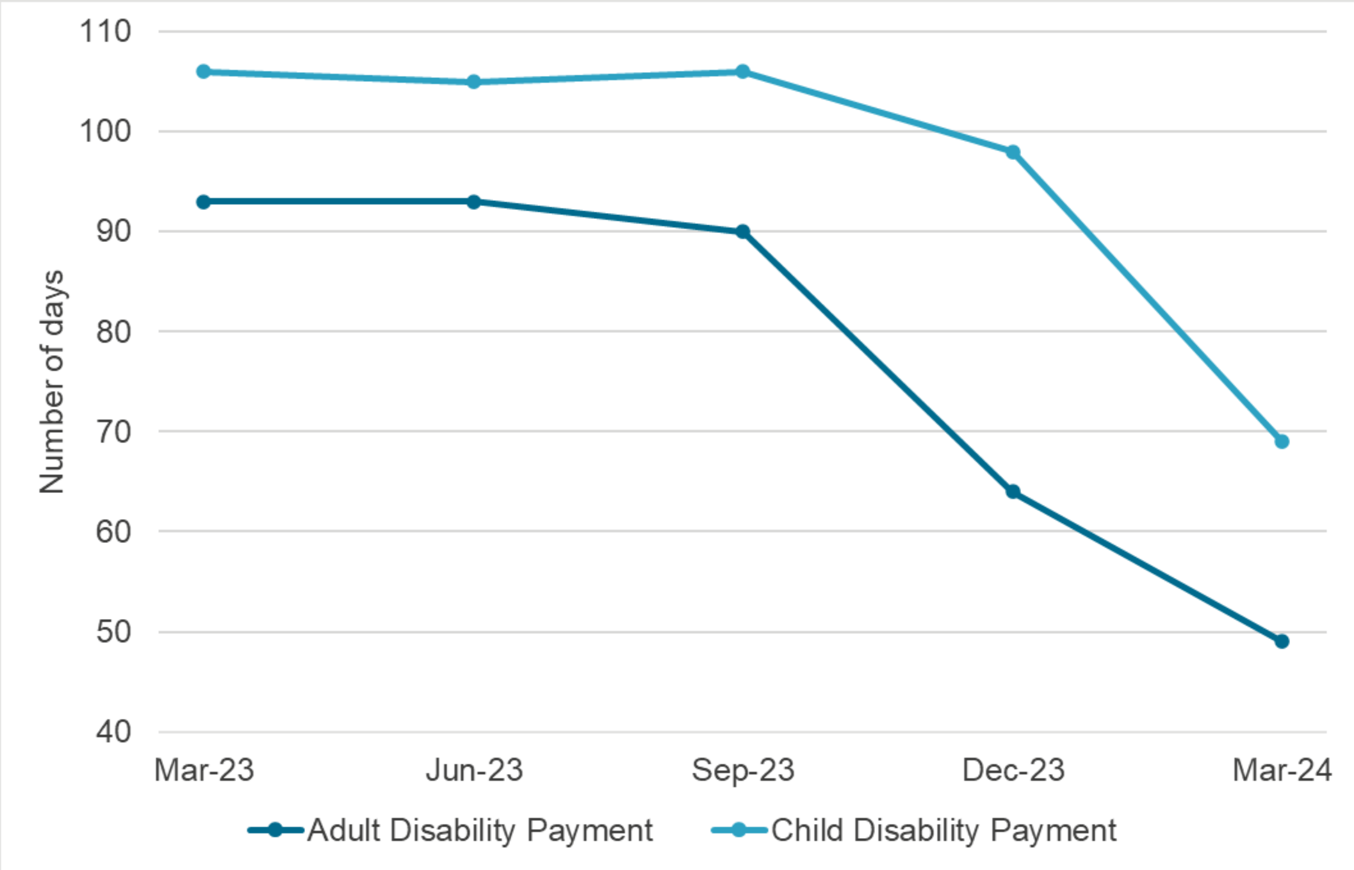
Processing times for disability payments has improved

109. Our 2022/23 Annual Audit Report highlighted that Social Security Scotland was experiencing challenges in processing times for disability benefits. Action was taken to reduce processing times and an improvement action plan was put in place.

110. Published statistics show that the median average processing times for Child Disability Payment and Adult Disability Payment have reduced during 2023/24. This is outlined in Exhibit 8 below. Adult Disability Payment median average processing times reduced from 96 days in April 2023 to 49 days in March 2024. Child Disability Payment median average processing days reduced from 108 days in April 2023 to 69 days in March 2024.

Exhibit 8

Median number of working days to process disability benefits



Source: Social Security Scotland statistics

The case transfer of Disability Living Allowance for children from the Department for Work and Pensions to Social Security Scotland is now complete

111. The Scottish Government published a report[2] in July 2024 on the evaluation of the case transfer process for those in receipt of Adult Disability and Child Disability Payment. This reported that as of April 2024, the Scottish

[2] Disability benefits evaluation – case transfer: evaluation, Scottish Government, July 2024

Government had transferred the disability benefit awards of more than 156,000 people from the Department for Work and Pensions to Social Security Scotland.

112. The case transfer process for disability benefits continued during 2023/24. Social Security Scotland published management information in February 2024 that confirmed it has now completed all case transfers of Disability Living Allowance (Child) cases to Child Disability Payment. The transfer of Personal Independence Payment to Scotland's Adult Disability Payment is ongoing.

113. The process to transfer Carer's Allowance cases to Carer Support Payment started in February 2024. The case transfer process is expected to be complete by Spring 2025.

114. The Scottish Government evaluation of case transfers reports that Social Security Scotland has yet to transfer around 700,000 awards from the Department for Work and Pensions. Case transfers for Personal Independence Payment, Disability Living Allowance for adults, and Carer's Allowance are due to be completed by the end of 2025.

Social Security Scotland continues to make progress against the recommendations of the 'Progress on implementing the devolved benefits' report

115. Since the Social security: Progress on implementing the devolved benefits report was published in May 2022, Social Security Scotland has taken action to implement the recommendations that apply to it. Social Security Scotland has created a new staffing finance business partner role to focus on in year and future year staff forecasts. They work closely with workforce analytics, resourcing and human resource business partners to produce more comprehensive information and make workforce planning more efficient.

116. A recommendation in the report for both Scottish Government and Social Security Scotland was to plan for how they will measure the impact of the benefits being introduced and how they will evaluate and report on progress against outcomes. As described above (paragraph 106), a performance forum was established to support performance management in Social Security Scotland. The forum will provide a link with the programme's Measurable Improvements Strategy and Evaluation Activity.

117. During 2023 Social Security Scotland worked with the Scottish Government and other parties to review the Charter and the Charter Measurement Framework in line with statutory requirements. A number of improvements have been proposed and updates to the Charter Measurement Framework will be finalised once the revised Charter has been agreed.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Impairment model Social Security Scotland does not have an impairment model for benefits receivable or overpayments. With benefit expenditure predicted to increase in future years, this will become increasingly important. **Risk:** Social Security Scotland is unable to calculate impairment of benefits receivable or overpayments.	Social Security Scotland should develop an impairment model for benefits receivable and overpayments for use in future years. Exhibit 4, item 3	**Accepted** We understand the requirement and will continue to develop and implement an impairment model for overpayments related to benefits we directly administer when appropriate. **Benefit Forecasting and Debt Lead** **March 2025**
2. Reconciliations We identified some discrepancies in the reconciliation between the Department for Work and Pensions system information and the Social Security Scotland general ledger. On this occasion there was no impact on the financial statements. **Risk:** if a significant variance is not understood this could result in a material misstatement in financial reporting.	Regular reconciliations performed between the Department for Work and Pensions and Social Security Scotland record of transactions and balances for devolved benefits should be subject to appropriate review. Paragraph 45.	**Accepted** In-year and year-end reconciliations between Social Security Scotland and the Department for Work and Pensions finance systems are performed and variances understood, but we accept that some improvements are required and a review of these has already begun with the changes being implemented immediately to enhance controls further. **Benefit Forecasting and Debt Lead** **March 2025**

Issue/risk	Recommendation	Agreed management action/timing
3. System development As the benefits being delivered become more complex, the need for robust system controls which prevent and detect fraud and error increases. Social Security Scotland and the programme do not have the capacity to make all required improvements to the Social Programme Management (SPM) case management system. **Risk:** system functionality and benefits delivery is adversely impacted.	Social Security Scotland should continue to work with the Scottish Government Social Security Programme to implement system improvements and demonstrate how systems will be sustained beyond programme closure. Paragraph 53.	**Accepted** Social Security Scotland works closely with the Scottish Government Social Security Programme and will continue to do so to improve a number of our systems beyond SPM. The prioritisation of reducing and remediating technical debt through further releases from the programme will be key to maturing the detection and prevention of fraud and error through greater systems controls. **Chief Architect** **Ongoing**
4. Fraud and error Fraud and error are an inherent risk in a social security system that is driven by individual claims. Social Security Scotland is still reliant on the Department for Work and Pensions for many fraud and error estimates as well as developing its own arrangements for the benefits being delivered directly. **Risk:** arrangements are not developed at the required pace and so fraud and error in the system is not understood.	Social Security Scotland should further develop processes to measure the level of fraud and error within the range of benefits being delivered. Paragraph 57.	**Accepted** We are continuing to develop the methodology, systems, and processes to support estimation of the level of fraud and error within our benefits. Changes to legislation are required which are being progressed. **Head of Fraud and Error Resolution Unit** **Ongoing**
5. Transition funding Capabilities and services continue to transition from the programme to Social Security Scotland and other parts of the Scottish Government as	Social Security Scotland should work with the Scottish Government Social Security Programme to agree and manage the capabilities, services and funding that will	**Accepted** We will work with the Scottish Government Social Security Programme to manage transition and support successful programme closure.

Issue/risk	Recommendation	Agreed management action/timing
the programme approaches the end of its lifecycle. **Risk:** the programme does not fund all costs for all services expected to transfer, including staff.	transition when the programme closes. Paragraph 74.	**Deputy Director Finance and Corporate Services** **Deputy Director Organisational, Strategy and Performance** **Deputy Director Social Security Programme** **2026**
6. Cyber security Social Security Scotland should ensure appropriate action is taken to implement the findings from recent cyber security assessments carried out. This will ensure arrangements in place are adequate and secure. **Risk:** any control weaknesses could affect the organisation’s resilience to handle future cyber incidents.	Social Security Scotland should continue to review the cyber security arrangements that exist and implement identified improvements. Paragraph 99.	**Accepted** The findings from the individual assessments are being considered and appropriate action plans are being developed and will have corresponding implementation plans developed. Each individual assessment's findings will be implemented in a different timeframe, overall completion is likely to take until the end of the 2024/5 financial year. Additional resources are being made available to prioritise progress in this key area of Cyber Defence and Protection. **Chief Digital Information Officer** **March 2025**
7. Performance management framework Performance management arrangements are not adequately developed to support robust decision making and the assessment of impact on outcomes. **Risk:** Social Security Scotland will not be able to demonstrate value for money.	Social Security Scotland should implement performance management arrangements that will allow an evidence based assessment of performance to support decision making and demonstrate value for money. Paragraph 105.	**Accepted** Social Security Scotland’s performance management arrangements are based around: the Charter, our legal obligations as a public body (including Social Security (Scotland) Act), economy and efficiency measures and the development of organisational delivery performance indicators

Issue/risk	Recommendation	Agreed management action/timing
		underpinned by relevant management information. These support us to deliver effectively and positively impact a number of Scottish Government National Performance Outcomes. We will continue working with Programme and will define performance measures consistent with the Programme's Measurable Improvements Strategy and Evaluation Activity. Our Business Plan 2024/25 includes a commitment to develop and publish a Quality and Performance Framework, setting out clearly our quality standards for our clients. It will also identify areas for further learning and improvement. The framework will demonstrate our links with National Outcomes, the Scottish Government's Social Security Programme's Measurable Improvements Strategy and Evaluation Activity and the Charter Measurement Framework. **Head of Strategy, Performance and Governance** **December 2024**

Follow-up of prior year recommendations

Issue/risk	Recommendation	Progress
b/f 1. Impairment Model Social Security Scotland does not have an impairment model for benefits receivable	Social Security Scotland should develop an impairment model for benefits	**Work in progress** **Recommendation 1**

Issue/risk	Recommendation	Progress
or overpayments. With benefit expenditure predicted to increase in future years, this will become increasingly important. **Risk:** Social Security Scotland is unable to calculate impairment of benefits receivable or overpayments.	receivable and overpayments for use in future years.	
b/f 2. IFRS 16 Leases Social Security Scotland has adopted the cost model to measure right-of-use assets on the basis that higher value leases are subject to five yearly rent reviews. Management have been advised by JLL that recent rent reviews have not resulted in an uplift. Management consider that these factors confirm cost to be an appropriate proxy for fair value. **Risk:** there is a risk that the value of right-of-use assets is incorrectly reported in the intervening period between rent reviews.	Management should re-evaluate the value of right-of-use assets year on year and consult an expert where appropriate to ensure that right-of-use assets are not materially misstated.	**Implemented**
b/f 3. System Development As the benefits being delivered become more complex, the need for robust system controls which prevent and detect fraud and error increases. Technical debt is not clearly defined and so the scale and impact cannot easily be quantified. Risk: system functionality and benefits delivery is adversely impacted.	Social Security Scotland should continue to work with the Social Security Programme to continually improve systems.	**Work in progress** **Recommendation 3**

Issue/risk	Recommendation	Progress
b/f 4. Fraud and Error Fraud and error are an inherent risk in a social security system that is driven by individual claims. Social Security Scotland is still reliant on the Department for Work and Pensions for many fraud and error estimates as well as developing its own arrangements for the benefits being delivered directly. **Risk:** Fraud and error arrangements are not developed at the same pace as the roll-out of new benefits.	Social Security Scotland must continue to develop processes to measure the level of fraud and error within the range of benefits being delivered. This includes working with the Scottish Government to remove the barriers that exist in assessing the level of client induced error and fraud.	**Work in progress** **Recommendation 4**
b/f 5. Transition funding From 2023/24 onwards, capabilities and services will be transitioning from the programme to Social Security Scotland and other parts of the Scottish Government. **Risk:** the programme does not fund all costs for all services expected to transfer, including staff.	Funding solutions for the capabilities and services that transition from the Social Security Programme to Social Security Scotland should be agreed and managed effectively.	**Work in progress** **Recommendation 5**
b/f 6. Cyber Security Social Security Scotland should ensure appropriate action is taken to implement the findings from recent cyber security assessments carried out. This will ensure arrangements in place are adequate and secure. **Risk:** any control weaknesses could affect the	Social Security Scotland should continue to review the cyber security arrangements that exist and implement improvements as appropriate.	**Work in progress** **Recommendation 6**

Issue/risk	Recommendation	Progress
organisation's resilience to handle future cyber incidents.		
b/f 7. Performance Management Framework Performance management arrangements are not adequately developed to support robust decision making and the assessment of impact on outcomes. **Risk:** Social Security Scotland will not be able to demonstrate value for money.	Social Security Scotland should continue to focus on developing performance management arrangements that will allow an evidence-based assessment of performance to support decision making and help demonstrate value for money.	**Work in progress** **Recommendation 7**

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than the reporting threshold of £500,000

The table below summarises uncorrected misstatements that were noted during audit testing and were not corrected in the financial statements. Cumulatively these errors are below the performance materiality level as explained in Exhibit 3. I am satisfied that these errors do not have a material impact on the financial statements.

	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
Accounting Misstatements		**Dr £'000**	**Cr £'000**	**Dr £'000**	**Cr £'000**
1. DWP debt misclassification	Benefit expenditure		7,527		
	Benefit overpayment debt			7,527	

Social Security Scotland

2023/24 Annual Audit Report

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