

Social Security Scotland

Annual Audit Plan 2025/26



Prepared for Social Security Scotland
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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2025/26 audit of Social Security Scotland's annual report and accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Pauline Gillen, of Audit Scotland, has been appointed by the Auditor General for Scotland as the external auditor of Social Security Scotland, for the period from 2022/23 until 2026/27. The 2025/26 financial year is therefore the fourth of the five-year audit appointment.

3. Pauline Gillen and the audit team are independent of Social Security Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of Social Security Scotland to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on the regularity of income and expenditure.
- An opinion on statutory other information published with the financial statements in the annual report and accounts, namely the Performance Report and the Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on Social Security Scotland's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on Social Security Scotland's arrangements for securing Best Value.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the auditor and Social Security Scotland. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Public Finance and Accountability (Scotland) Act 2000. These include providing an independent opinion on the financial statements and other information reported within the annual report and accounts, and concluding on Social Security Scotland's arrangements in place for the wider scope areas.

Social Security Scotland's responsibilities

8. Social Security Scotland has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of an annual report and accounts, comprising financial statements that give a true and fair view and other information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit of the annual report and accounts

Introduction

9. The audit of the annual report and accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

10. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual report and accounts.

11. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

12. The materiality levels determined for the audit of the Social Security Scotland are outlined in [Exhibit 1](#).

Exhibit 1

2025/26 Materiality levels for Social Security Scotland

Materiality	Amount
Materiality – based on an assessment of the needs of users of the financial statements and the nature of Social Security Scotland's operations, the benchmark used to determine materiality is gross expenditure based on the latest forecasts for 2025/26. Materiality has been set at 1% of the benchmark.	£69 million
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 60% of planning materiality.	£41 million

Materiality	Amount
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£500,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team's cumulative knowledge of Social Security Scotland, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

14. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2, page 8](#). These are the risks which have the greatest impact on the audit approach, and the planned audit procedures in response to these risks are outlined in Exhibit 2.

15. Risk assessment is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and Exhibit 2 may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to Social Security Scotland and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
<p>Fraud caused by management override of controls</p> <p>International Standard on Auditing (UK) 240, states that management is in a unique position to perpetrate fraud because of the ability to override controls that otherwise appear to be operating effectively. The risk of fraud caused by management override of controls is therefore a mandatory risk for all audits.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate 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 relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting expenditure recognition around the year-end. • Evaluate any significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.

Risk of material misstatement	Planned audit response
<p>Risk of material misstatement caused by fraud and error in benefit expenditure delivered by Social Security Scotland</p> <p>Social Security Scotland is responsible for delivering the majority of devolved benefit expenditure in 2025/26. The nature and complexity of social security systems and the volume of payments means that there is an inherent risk of fraud and error.</p> <p>Social Security Scotland's understanding of the fraud and error that exists within the benefits it delivers is still in development. It can currently only estimate official error with significant work still required to measure the fraud and error that exists within the full range of benefits.</p> <p>If Social Security Scotland is unable to accurately disclose the level of fraud and error that exists there may be an impact on the audit opinion.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Review the design and implementation of internal controls over benefits delivered by Social Security Scotland with a focus on prevention and detection of fraud and error. • Review adequacy of fraud and error prevention and detection arrangements. • Assess progress with the development of arrangements to estimate levels of fraud and error. • Complete detailed testing of benefit payments.

Source: Audit Scotland

16. Fraud and error in the benefit expenditure delivered by the Department for Work and Pensions (DWP) has not been identified as a significant risk of material misstatement for 2025/26. This is due to Social Security Scotland now delivering the majority of devolved benefit expenditure. In 2025/26, the estimated value of benefits delivered by Social Security Scotland is £6.0 billion (2024/25: £3.7 billion) and by the DWP is £0.6 billion (2024/25: £2.2 billion). Consequently, the volume of benefit payments delivered by the DWP and the associated estimated exposure to fraud and error has reduced to a level that is not considered material by value. We will however continue to carry out detailed audit work in this area and will report on the estimated level of fraud and error in DWP delivered benefits in our Annual Audit Report.

Key audit matters

17. The Code of Audit Practice requires public sector auditors to communicate the key audit matters which in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

18. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

19. Key audit matters will be communicated in the Annual Audit Report. [Exhibit 2](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Wider scope and Best Value

Introduction

20. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual report and accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on Social Security Scotland being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering Social Security Scotland’s medium to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with agreed priorities. This is assessed by considering the clarity of plans in place to deliver strategic priorities and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering Social Security Scotland’s arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

21. A conclusion on the effectiveness and appropriateness of the arrangements in place for each of the wider scope areas will be reported in the Annual Audit Report.

Duty of Best Value

22. The [Scottish Public Finance Manual](#) (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have

been made to secure Best Value. [Best Value in public services: guidance for Accountable Officers](#) is issued by Scottish Ministers and sets out their duty to ensure that arrangements are in place to secure Best Value in public services.

23. Consideration of the arrangements Social Security Scotland has in place to secure Best Value will be carried out alongside the wider scope audit, and a conclusion on those arrangements will be reported in the Annual Audit Report.

24. Auditors may also carry out specific audit work covering the seven Best Value themes set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the themes. Auditors are required to carry out a review of the 'fairness and equality' theme at least once during the audit appointment, and this was carried out as part of a prior year audit.

Significant wider scope

25. Our planned work on wider scope responsibilities is risk based and proportionate. In summary, our wider scope audit will focus on the following risks:

- **Financial Sustainability:** As the process of transferring benefits to Social Security Scotland continues and the transition of services from the Scottish Government Social Security Programme (the programme) nears completion, there is an increasing financial challenge to reduce operating expenditure. Longer-term financial planning for an Agile project of this scale is challenging with uncertainty over projected costs and future budget allocations.
- **Programme Closure:** The programme delivery life cycle is due to end in 2026 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. A new future operating model has been developed to ensure sufficient staffing and operational functions. This needs to be designed appropriately and implemented in sufficient time to ensure it can respond effectively to the changes resulting from programme closure.
- **Systems Development:** Future investment for multiple years will be required to maintain and develop the social security digital ecosystem. There are numerous systems used by Social Security Scotland to deliver benefits, with the Social Programme Management (SPM) case management system being central to case management operations. Social Security Scotland will be responsible for implementing system enhancements across the entire digital ecosystem to ensure long-term sustainability and scalability beyond the programme closure in March 2026.

- Social Security Scotland has used the DWP Central Payment System (CPS) to process benefit payments to Scottish clients since December 2018. The use of this system by Social Security Scotland is scheduled to end in late 2027. A project has commenced to create a new Payments and Accounting Service for Social Security Scotland which aims to be delivered during 2027. This new platform will be essential to ensure the continued delivery and financial management of devolved benefit payments. Contingency arrangements have been agreed for a short term continuance of the CPS service beyond October 2027 whilst benefits are transitioning to the new service in Scotland.
- **Performance Management Arrangements:** Social Security Scotland should develop an evidence based assessment of performance which demonstrates value for money and supports the measurement of the social security system's impact on outcomes as outlined in the Quality and Performance Framework published in 2025.

Reporting arrangements, timetable and audit fee

Audit outputs

26. The outputs from the 2025/26 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to Social Security Scotland, the Auditor General for Scotland, and the Scottish Parliament setting out opinions on the annual report and accounts.
- An Annual Audit Report to Social Security Scotland and the Auditor General for Scotland setting out significant matters identified from the audit of the annual report and accounts, conclusions from the wider scope and Best Value audit, recommendations, where required, and any good practice identified.

27. The matters to be reported in the outputs will be discussed with Social Security Scotland for factual accuracy before they are issued. All outputs from the audit will be published on [Audit Scotland's website](#), apart from the Independent Auditor's Report, which is included in the audited annual report and accounts.

28. Target dates for the audit outputs are set by the Auditor General for Scotland. In setting these dates, consideration is given to the target date for approving the annual report and accounts, which is 31 August 2026 for central government agencies and non-ministerial departments.

29. The audit of Social Security Scotland is dependent on assurances from the National Audit Office over the transactions and balances for benefits delivered by the DWP on behalf of Social Security Scotland. As these assurances are not available until after this date the Independent Auditor's Report and Annual Audit Report are planned to be issued by the revised target date of 31 October 2026.

Audit timetable

30. Achieving the timetable for production of the annual report and accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 3](#) includes a timetable for the audit, which has been agreed with management. Target dates will be kept under review as the audit progresses, and any changes

required, and their potential impact, will be discussed with Social Security Scotland and reported to those charged with governance, where required.

Exhibit 3 2025/26 audit timetable

Audit activity	Target date
Issue of Annual Audit Plan	4 February 2026
Annual report and accounts:	
Submission of unaudited annual report and accounts and all working papers to audit team	22 June 2026
Latest date for audit clearance meeting	8 September 2026
Agreement of audited and unsigned annual report and accounts	16 September 2026
Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	18 September 2026
Approval by those charged with governance and signing of audited annual report and accounts	29 September 2026
Signing of Independent Auditor's Report and issue of Annual Audit Report	29 September 2026
Latest date for signing of SG Consolidation return	To be confirmed

Source: Audit Scotland

Audit fee

31. Social Security Scotland's audit fee is determined in line with Audit Scotland's fee setting arrangements. The proposed audit fee for the 2025/26 audit is £466,280 (2024/25 £446,920).

32. In setting the audit fee, it is assumed that Social Security Scotland has effective governance arrangements in place and the complete annual report and accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

33. Social Security Scotland is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

34. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2025/26 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team plan to place reliance on internal audit's review of client services delivery benefit compliance for 2025/26. This review involved substantive testing designed to provide assurance over the system controls governing the benefit delivery and approval process. An update on this work will be included in our 2025/26 Annual Audit Report.

Audit quality

35. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

36. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2025/26 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior

management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

37. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

38. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

39. Audit Scotland may periodically seek the views of Social Security Scotland on the quality of audit services provided. The audit team would also welcome feedback at any time.

Social Security Scotland

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