Social Security Scotland

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for Social Security Scotland and the Auditor General for Scotland
September 2026

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Summary of audit opinions and conclusions

Audit of the annual report and accounts

1 We issued an unmodified audit opinion on the financial statements and regularity of expenditure and income. An Emphasis of Matter paragraph is included in our independent auditor's report to draw attention to the disclosures that relate to fraud and error in the benefits administered by Social Security Scotland.

2 The previous regularity qualification relating to benefit expenditure administered by the Department for Work and Pensions has been removed. The transfer of benefit cases to Social Security Scotland means that the levels of estimated fraud and error in the benefits administered by the Department for Work and Pensions is no longer material.

Financial management

3 Social Security Scotland was responsible for £6.5 billion of benefit payments in 2025/26 and incurred £310.9 million of operating expenditure, which was in line with budget. Appropriate and effective arrangements are in place to ensure sound financial management.

4 A Payment and Accounting Service is in development to replace the use of the Department for Work and Pension’s Central Payment System in phases from January 2027. The future administration and financial management of devolved benefits is dependent on the successful delivery of this project.

5 Social Security Scotland continues to invest in systems to prevent and detect fraud and error in the benefits it administers. The capability required to estimate the overall level of fraud and error in benefits paid is still not in place and should be developed at pace.

Financial sustainability

6 The 2026/27 budget was set at £7.6 billion and this is made up of operating expenditure of £354.6 million and benefit expenditure of £7.2 billion. The benefit expenditure budget is based on Scottish Fiscal Commission independent forecasts and recognises the uncertainty within the forecasted benefit streams which are demand led.

7 Closure of the Scottish Government Social Security Programme on 31 March 2026 requires Social Security Scotland to reassess its long-term workforce requirements. Medium term financial plans identify a significant operational financial challenge from 2027/28 and Social Security Scotland needs to identify solutions to demonstrate financial sustainability in the medium to longer term.

Vision, leadership and governance

8 Social Security Scotland is working with the Scottish Government to develop a five year strategic roadmap that will refresh its long-term vision. Once established, the roadmap should provide greater clarity on strategic priorities and intended outcomes.

9 Governance arrangements continued to operate effectively during 2025/26. Social Security Scotland has made recent changes to its governance boards to align with the new operating model.

Use of resources to improve outcomes and Best Value

10 The ongoing work to develop an outcomes based approach to performance reporting is an important next step in the maturity of the Social Security Scotland performance management framework.

11 Progress has been made against the recommendations from Audit Scotland's Adult Disability Payment report to improve analytical performance reporting, to increase transparency and understanding of organisational performance. However, the absence of targets continues to limit Social Security Scotland's ability to demonstrate Best Value consistently and clearly identify underperformance.

12 Overall, effective and appropriate arrangements are in place to secure Best Value.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of Social Security Scotland's annual report and accounts and the wider scope areas specified in the Code of Audit Practice.

2. The Annual Audit Report is addressed to Social Security Scotland, and the Auditor General for Scotland, and will be published on Audit Scotland's website once the audited accounts have been laid at the Scottish Parliament.

Appointed auditor and independence

3. Lisa Duthie, Audit Director of Audit Scotland, has been appointed as external auditor of Social Security Scotland for the period 2025/26 until 2026/27. As reported in the Annual Audit Plan, Lisa and the audit team are independent of Social Security Scotland in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from Social Security Scotland, including no provision of non-audit services.

Acknowledgements

4. We would like to thank Social Security Scotland and its staff, particularly those involved in preparation of the annual report and accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope, responsibilities, and fee

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (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, including 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 Governance Statement.
- An opinion on the audited part of the Remuneration and Staff Report.
- Conclusions on the 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 arrangements for securing Best Value.

Responsibilities and reporting

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 the arrangements in place for the wider scope areas and Best Value.

8. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

9. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve management or the Audit and Assurance Committee, as those charged with governance, of the responsibilities outlined below.

Social Security Scotland's responsibilities

10. 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 for Social Security Scotland that gives a true and fair view and other specified 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.

Arrangements for the delivery of benefits

11. Social Security Scotland is an executive agency of the Scottish Government responsible for the delivery of devolved social security benefits in Scotland. Since its establishment in 2018, it has worked alongside the Scottish Government's Social Security Programme ("the Programme"), which was responsible for designing and implementing devolved benefits and developing the supporting systems, processes and digital infrastructure required to administer them.

12. The Social Security Programme 2017-2026 Delivery Report confirms that the Programme closed in March 2026 as planned. The responsibility for the ongoing operation, maintenance and future development of services and systems has now transitioned to Social Security Scotland.

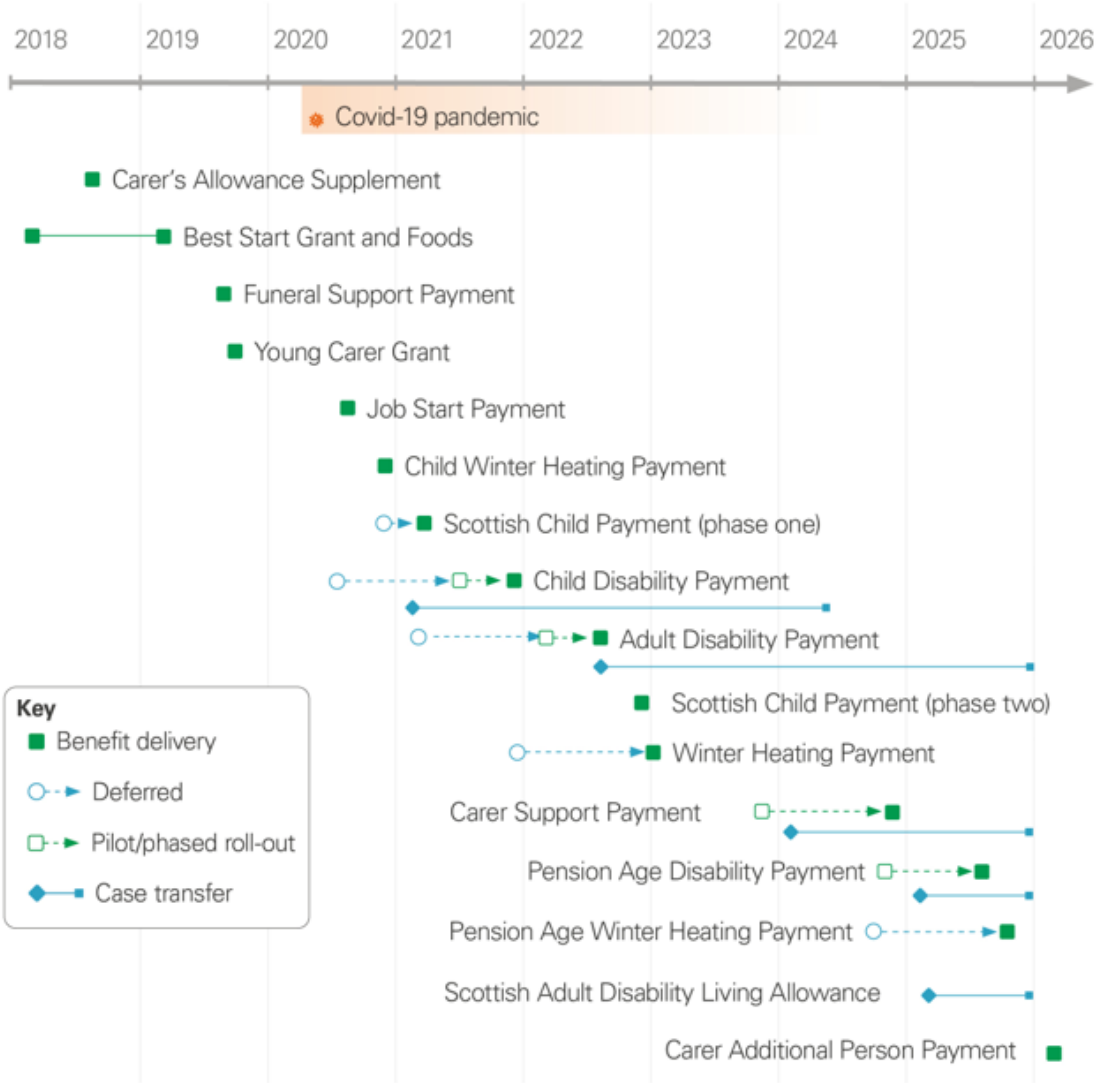
13. The Scottish Government and UK Government agreed a phased approach to the devolution of social security powers to support a safe

and secure transition. Social Security Scotland now directly administers almost all devolved benefit expenditure, with only limited benefits and remaining case transfers continuing under agreements with the Department for Work and Pensions.

14. Exhibit 1 outlines the timeline for delivering devolved benefits. Social Security Scotland now delivers eighteen 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: Best Start Grant includes Best Start Pregnancy and Baby, Early Years and School Age.

Note 2: Employment Injury Assistance is being developed as the replacement for Industrial Injuries Disablement Benefit in Scotland. Industrial Injuries Disablement Benefit continues to

operate under existing arrangements, with the current agency agreement extended until March 2027.

Note 3: The Two Child Limit Payment was not introduced in March 2026 as planned by the Scottish Government following the UK Government's decision to remove the two-child cap. Funding was instead redirected to other child poverty measures.

Note 4: Scottish Carer Supplement was launched in March 2026 and replaced Carer's Allowance Supplement.

Note 5: Scottish Adult Disability Living Allowance is a closed benefit and does not accept new applications. Caseloads comprise of individuals whose awards transferred from Disability Living Allowance, the equivalent benefit previously administered by the Department for Work and Pensions.

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

Audit Fee

15. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £466,280. There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

Audit outputs and completion

16. The target date for issuing audit outputs and completion of the audit is set by the Auditor General for Scotland. In setting the target date, 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.

17. As outlined in the Annual Audit Plan, the audit of Social Security Scotland is dependent on assurances from the National Audit Office over the transactions and balances for benefits administered by the Department for Work and Pensions 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.

National and performance audit reporting

18. The Auditor General for Scotland and the Accounts Commission regularly publish national and performance audit reports. These cover a range of matters, many of which may be of interest to Social Security Scotland and the Audit and Assurance Committee. Details of national and performance audit reports published over the last year can be seen in Appendix 2.

Audit of the annual report and accounts

Main judgements

We issued an unmodified audit opinion on the financial statements and regularity of expenditure and income. An Emphasis of Matter paragraph is included in our independent auditor's report to draw attention to the disclosures that relate to fraud and error in the benefits administered by Social Security Scotland.

The previous regularity qualification relating to benefit expenditure administered by the Department for Work and Pensions has been removed. The transfer of benefit cases to Social Security Scotland means that the levels of estimated fraud and error in the benefits administered by the Department for Work and Pensions is no longer material.

An Emphasis of Matter paragraph is included in the independent auditor's report

19. The annual report and accounts for the year ended 31 March 2026 were approved by the Accountable Officer on 29 September 2026. The annual report and accounts were signed on 9 October 2026 following provision of outstanding pension information. The Independent Auditor's Report is included in Social Security Scotland's annual report and accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



20. The Independent Auditor's Report includes an Emphasis of Matter paragraph drawing attention to the disclosures in note 19 where Social Security Scotland outlines the fraud and error in both the Department for Work and Pensions and Social Security Scotland administered benefits. The Emphasis of Matter does not modify the audit opinion, however it highlights a matter that is fundamental to users' understanding of the financial statements.

21. Fraud and error is an inherent risk within any social security system due to the complexity of benefit entitlement rules and the volume of payments made to individuals. As responsibility for administering devolved social security benefits has transferred from the Department for

Work and Pensions to Social Security Scotland, the value of benefits administered directly by Social Security Scotland has increased significantly.

22. Social Security Scotland has continued to develop arrangements to understand and estimate the level of fraud and error within the benefits it administers. It has undertaken statistical exercises for selected benefits and has published official error statistics for Best Start Foods, Scottish Child Payment and Adult Disability Payment. However, comprehensive arrangements are not in place to reliably estimate the full level of fraud and claimant error across the entire benefit caseload. Official error statistics have been produced for selected benefits, but these exercises do not measure claimant error or fraud, and the statistical approach adopted means the rates cannot be reliably applied to the full year. This means the results cannot be used to estimate the total level of fraud and error across the wider devolved benefit caseload.

23. The Social Security (Amendment) (Scotland) Act 2025 introduced powers intended to support the measurement and management of fraud and error within the Scottish social security system. The regulations required to implement these powers had not been finalised by the end of 2025/26. Further work is required before Social Security Scotland can undertake the exercises needed to produce reliable estimates of claimant fraud and error.

24. As part of our audit, we considered the level of fraud and error within benefits administered by Social Security Scotland. This is a matter that is fundamental to users' understanding of the financial statements. Social Security Scotland has not yet established a comprehensive statistical estimate of the total level of fraud and error across the benefits it delivers. The Independent Auditor's Report includes an Emphasis of Matter paragraph to draw attention to the related disclosures in note 19 to the financial statements.

The regularity opinion was unqualified in 2025/26

25. The benefits administered 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.

26. In previous years, we qualified our regularity opinion because estimated overpayments arising from fraud and error in benefits administered by the Department for Work and Pensions were material. During 2025/26, the value of benefits administered by the Department for Work and Pensions on behalf of Social Security Scotland reduced significantly following the substantial completion of benefit case transfer.

27. The estimated value of overpayments attributable to fraud and error in the benefits administered by the Department for Work and Pensions is

approximately £10.6 million in 2025/26. This is significantly below both overall materiality and performance materiality. Consequently, the regularity opinion was unqualified.

28. 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 in line with a determination if it is deemed to comply with the legislation, irrespective of whether this has been based on incorrect or fraudulent information.

Audit timetable

29. The unaudited annual report and accounts and all working papers were received on 22 June 2026 in accordance with the agreed audit timetable. 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.

Materiality was reviewed on receipt of the unaudited annual report and accounts

30. 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.

31. Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual report and accounts. 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.

32. Materiality levels for the audit of Social Security Scotland were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual report and accounts as can be seen in Exhibit 2.

Exhibit 2
2025/26 Materiality levels for Social Security Scotland

Materiality	Amount
Materiality – set at 1% of gross expenditure	£69 million
Performance materiality – set at 60% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£41 million
Reporting threshold	£500,000

Source: Audit Scotland

The audit has identified significant findings and key audit matters

33. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for Social Security Scotland is the Audit and Assurance Committee.

34. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, 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.

35. 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.

36. The significant findings and key audit matters to report are outlined in Exhibit 3.

Exhibit 3
Significant findings and key audit matters

Significant findings and key audit matters	Outcome
1. Underlying fraud and error in benefit expenditure The estimated level of fraud and error in benefits administered by the Department for Work and Pensions reduced significantly during 2025/26 as the value of benefits delivered under agency arrangements continued to decrease. As disclosed in Note 19 of the financial statements there are estimated overpayments of £10.6 million in 2025/26. As this amount is not considered to be material to our opinion on the annual report and accounts, the regularity opinion is unqualified. However, fraud and error exists within the £6.0 billion of benefit expenditure administered directly by Social Security Scotland. While the organisation continues to strengthen its arrangements for measuring fraud and error, it has not yet established a comprehensive statistical estimate of the total level of fraud and error across the benefits it delivers. As a result, further work is required before robust estimates can be produced. The level of fraud and error in benefit payments is fundamental to users' understanding of the financial statements.	Given the importance of this matter to users' understanding of the accounts, the independent auditor's report includes an Emphasis of Matter paragraph. The opinion on the financial statements and the regularity opinion are not modified in respect of this matter. This was judged to be a key audit matter.

Significant findings and key audit matters	Outcome
2. HM Treasury Guidance on accounting for Social Benefits During 2025/26, Social Security Scotland implemented revised accounting treatment for social benefit accruals following updated HM Treasury guidance, effective from 1 April 2025. Under the revised guidance, social benefit expenditure is recognised when claimants have met the eligibility criteria and only to the extent that entitlement has been earned by the reporting date. This represents a change from previous accounting treatment, which was based on amounts expected to be paid following the processing and approval of claims. Under the revised guidance, expenditure is recognised based on benefit entitlement earned by the reporting date, requiring Social Security Scotland to estimate the value of entitlement relating to claims that remain unprocessed at year-end. Social Security Scotland developed a methodology to estimate benefit entitlement accrued at 31 March based on outstanding applications, expected award rates, historic processing profiles and entitlement earned up to the reporting date. The revised methodology resulted in a prior year adjustment of £33.4 million for 2024/25 and a 2025/26 accrual of £42.0 million.	We reviewed management's methodology and financial statement disclosures and concluded that the revised accounting treatment had been applied consistently with HM Treasury guidance.
3. Remuneration and Staff Report Our testing of the remuneration and staff report identified four errors that required adjustment to the remuneration disclosure of two executive members and two non-executive members. Accrued pension benefits relating to 2025/26 for Executive Team members were not included in the unaudited annual report and accounts. This was out with the control of Social Security Scotland and arose due to delays in the calculation and provision of the required pension information by the pension administrator for organisations participating in the Civil Service Pension Scheme.	Management amended the remuneration and staff report to correct the identified disclosure errors and ensure remuneration disclosures were prepared in accordance with the relevant reporting requirements. No further issues were found. The pension information was subsequently received from the pension administrator and used by management to update the audited annual report and accounts. Ongoing prior year recommendation 2. (Appendix 1, action plan)

Source: Audit Scotland

37. Our audit approach for the 2025/26 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 administered by the Department for Work and Pensions, on behalf of Social Security Scotland, during 2025/26.

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

- Debt impairment within the financial summary was understated by £1.4 million due to the use of out of date impairment rates. Social Security Scotland applied a more prudent debt recovery assumption in its 2025/26 financial statements following changes to debt collection arrangements from 1 April 2026. This resulted in an additional impairment of £4.0 million being recognised in the Social Security Scotland financial statements. As a result, the understatement identified in the financial summary audit does not impact on the Social Security Scotland financial statements.

- 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 £0.8 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.

Qualitative aspects of accounting practices

39. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

40. The appropriateness of accounting policies adopted by Social Security Scotland was assessed as part of the audit. These were considered to be appropriate to the circumstances, and there were no significant departures from the accounting policies set out in the Government Financial Reporting Manual (FReM).

Accounting estimates

41. Accounting estimates are used in a number of areas in Social Security Scotland's financial statements, including the impairment of benefit overpayments. Audit work considered the process Social Security Scotland has in place around making accounting estimates, including the

assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

Disclosures in the financial statements

42. The adequacy and quality of disclosures in the financial statements was assessed as part of the audit and were considered to be satisfactory.

Significant matters discussed with management

43. All significant matters identified during the audit and discussed with Social Security Scotland have been reported in the Annual Audit Report.

There were no misstatements identified during the audit process

44. No audit adjustments were required to the financial statements greater than the reporting threshold of £500,000. 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.

Significant risks of material misstatement identified in the Annual Audit Plan

45. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 4.

Exhibit 4

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls 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.	The audit team will: • 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.	Audit work performed found: • The design and implementation of controls over journal processing were appropriate. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting. • No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. **Conclusion:** We did not identify any instances of fraud caused by management override of controls.

Risk of material misstatement	Planned audit response	Outcome of audit work
Risk of material misstatement caused by fraud and error in benefit expenditure delivered by Social Security Scotland 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. 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. 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.	The audit team will: • Review the design and implementation of internal controls over benefits administered 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.	Audit work performed found: • The controls over benefit administration were found to be appropriate. • Developments have been made in the arrangements for the prevention and detection of fraud and error. • Social Security Scotland is continuing to develop arrangements to estimate the level of official error in the benefits it administers. • No issues were identified through our detailed testing. **Conclusion:** Social Security Scotland has made further progress towards understanding the official error that exists in the benefit caseload that it administers. However, the capability required to estimate the overall level of fraud and error in benefits paid is still not in place. Ongoing prior year recommendation 5. (Appendix 1, action plan)

Source: Audit Scotland

Prior year recommendations

46. Social Security Scotland has made some progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with Social Security Scotland and are outlined in Appendix 1.

Financial management and sustainability

Financial management

Conclusion

Social Security Scotland was responsible for £6.5 billion of benefit payments in 2025/26 and incurred £310.9 million of operating expenditure, which was in line with budget. Appropriate and effective arrangements are in place to ensure sound financial management.

A Payment and Accounting Service is in development to replace the use of the Department for Work and Pension's Central Payment System in phases from January 2027. The future administration and financial management of devolved benefits is dependent on the successful delivery of this project.

Social Security Scotland continues to invest in systems to prevent and detect fraud and error in the benefits it administers. The capability required to estimate the overall level of fraud and error in benefits paid is still not in place and should be developed at pace.

47. The audit work performed on the arrangements Social Security Scotland has in place in relation to financial management found them to be broadly effective and appropriate. Audit work has been performed in response to the significant wider scope risks identified in the Annual Audit Plan. The outcome of audit work is summarised at paragraphs 59 to 70.

Social Security Scotland benefit expenditure was £6.5 billion which was £17.8 million (or 0.3 per cent) below forecast

48. 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.

49. Social Security Scotland has reported an outturn of £6,550.1 million against its overall budget for 2025/26, which was £20.2 million below forecast. The financial performance against fiscal resources is shown in Exhibit 5.

Exhibit 5
Performance against fiscal resource in 2025/26

	Initial Budget £m	Final Budget £m	Outturn £m	Over / (under) spend £m
Operating expenditure (fiscal resource)	309.1	310.8	310.9	0.1
Capital	4.1	1.2	1.1	(0.1)
Operating Income			(0.1)	(0.1)
Net Operating Expenditure	**313.2**	**312.0**	**311.9**	**(0.1)**
Depreciation	7.4	7.4	7.5	0.1
Total	**320.6**	**319.4**	**319.4**	**0.0**
Benefit Expenditure				
Delivered by Social Security Scotland		6,478.7	5,963.7	(515.0)
Delivered by the Department for Work and Pensions		85.6	582.8	497.2
Total benefit expenditure		**6,564.3**	**6,546.5**	**(17.8)**
Provision for benefit underpayments		6.0	(8.8)	(2.4)
Benefit overpayment impairment			12.4	
Total		**6,570.3**	**6,550.1**	**(20.2)**

Source: Social Security Scotland annual report and accounts 2025/26

Budget processes and reporting were appropriate

50. Social Security Scotland's budget processes remain appropriate. The 2025/26 total revised budget increased by £265.5 million in comparison to the previous year. The most significant driver of the increase was higher forecast expenditure on disability benefits, reflecting continued

growth in demand and caseloads across Scotland. This is consistent with wider trends in disability benefit uptake across the UK.

51. The final operating budget was broadly in line with the original budget that was presented to the Executive Advisory Body in April 2025.

52. There is a £2.4 million underspend against the budget for the provision for benefit underpayments and the benefit overpayment impairment. This primarily reflects the write-back of previously recognised provisions and the utilisation of existing provisions during the year.

53. Although the financial outturn for the year is below forecast, this mainly relates to benefit expenditure which is demand led and cannot be controlled in the same way as other budgets where spending limits can be applied. The 2025 Scottish Fiscal Commission forecasts were used to inform the 2025/26 Scottish Budget. The Scottish Fiscal Commission published its Forecast Evaluation Report in August 2026. This report provides detailed analysis on reasons why benefit expenditure differs from budget forecast.

Our review of internal control arrangements in 2025/26 found that overall these were appropriate, but we identified some areas for improvement

54. 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.

55. 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 and report financial and other relevant data to result in a material misstatement in the financial statements.

56. We found that there are appropriate user access restrictions in place for the Social Programme Management (SPM) case management system but there is currently no formal process for management to regularly monitor or review user access rights to ensure it remains appropriate. While our testing of user access rights confirmed that only appropriate staff have access to SPM, failure to review user access on a regular basis increases the risk of unauthorised or inappropriate access. Further information on the follow-up of the related recommendation 3 reported in the 2024/25 Annual Audit Report is provided in Appendix 1.

57. We have reported since 2022/23 that work is ongoing to review and update the disaster recovery plan. Our review of the design and

implementation of systems of internal control relating to IT in 2025/26 has confirmed the disaster recovery plan has still to be finalised.

58. As part of our substantive testing of Adult Disability Payment expenditure, we identified three cases where a review of entitlement had not been undertaken within the expected timescales. Although this highlights where review controls did not operate as intended, no payment errors were identified, and our testing did not indicate any broader impact on expenditure.

A Digital Delivery Plan is being developed to ensure capital funding is allocated to priority areas

59. There are numerous systems used by Social Security Scotland to deliver benefits, with the SPM case management system being central to case management operations. From April 2026, Social Security Scotland now bears responsibility for implementing system enhancements across the entire digital ecosystem to ensure long-term sustainability and scalability.

60. During 2024/25 an independent assessment of the digital ecosystem was conducted. The findings from this assessment highlighted that significant future investment is required to maintain and develop the digital ecosystem, which includes the SPM case management system.

61. The 2026/27 operating expenditure budget includes an element for IT systems that sits under administration costs. The budget has increased from £20.9 million in 2025/26 to £35.6 million. This includes £8.5 million for support, performance monitoring and incident and defect management for the SPM case management system. It also reflects that in 2026/27 Social Security Scotland will fund the live running for products and services following the Programme closure, with an allocation of £9.2 million for releases that are critical for essential system changes.

62. Social Security Scotland has a capital budget of £40.0 million in 2026/27 and a significant proportion of this has been assigned to digital developments. Further information can be found at paragraph 106.

63. A governance framework is being developed to support the Digital, Delivery and Change division. This includes a Change Delivery Board to support decision making across the digital portfolio. A digital development priority list for 2026/27 is being finalised and a longer term delivery plan is in development that will cover a three to five year period.

64. Internal audit recently carried out a review of Digital Strategy, Maturity and System Lifecycle. This review received reasonable assurance but included eight medium priority recommendations aimed at strengthening governance arrangements. One of the recommendations highlights an issue with funding and financial planning arrangements. It recommends that management establish and implement a standard approach to digital and change investment aligned to defined digital

maturity objectives. Management has accepted all recommendations and provided agreed action.

65. Further information on the follow-up of the related system development recommendation 4 reported in the 2024/25 Annual Audit Report is provided in Appendix 1.

A Payment and Accounting Service is being developed to replace the use of the Department for Work and Pensions Central Payment System, with phased transition planned from January 2027

66. Social Security Scotland has used the Department for Work and Pensions 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 October 2027.

67. Social Security Scotland has completed a procurement exercise in conjunction with the Scottish Government Corporate Operations Directorate, to create a new Payment and Accounting Service (PAS) to replace the use of CPS. The implementation and configuration of standard Oracle payments and accounting products within the Scottish Government Cloud estate, represents a significant digital and business change programme. Successful delivery is critical to the future administration and financial management of devolved benefits.

68. A Payment and Accounting Services Project Board with a dedicated Senior Responsible Owner has been established to act as a governance forum for oversight of the programme. The Project Board meets monthly and is responsible for reviewing progress, managing key risks and issues, overseeing delivery against agreed milestones, and providing strategic direction to support successful delivery.

69. The build and implementation stage of the project is on track and due for completion by January 2027. A phased transition is planned from February 2027, and the platform is expected to be fully operational by October 2027. Contingency arrangements have been agreed with the Department for Work and Pensions for a six-month continuation of the CPS service through to April 2028, if required.

70. The successful delivery of the Payment and Accounting Service underpinned by a support model from the Scottish Government, is a key dependency for the future administration and financial management of devolved benefits. Given the scale and importance of the project, robust governance, oversight, and risk management arrangements must be maintained.

Social Security Scotland completed its first exercise to estimate official error in a disability benefit

71. During 2025/26 Social Security Scotland completed a review of official error in Adult Disability Payment cases covering the period

January to March 2025. This was a pilot exercise as it is the first time a disability benefit has been reviewed for official error. Lessons learned from this exercise will be identified before a full official error review for Adult Disability Payment is conducted in 2027.

72. The pilot review found that official error overpayments were estimated in 0.7% of Adult Disability Payment cases in payment between January and March 2025. This represented an estimated monetary value of £2.8 million (0.4% of expenditure on this benefit for the same time period).

73. Best Start Grants payment is the next benefit to be selected for an official error review. This work has started and is at the review stage, and results will be published as official statistics by May 2027. Although Social Security Scotland continues to make progress in estimating official error in its caseload, it is not yet able to estimate fraud and claimant error.

74. The Scottish Government issued a consultation that sought views on the development of regulations to support the new powers that will mandate participation in fraud and error exercises. The consultation closed on 10 June 2026 and it is expected that the regulations will be implemented in 2027.

75. Social Security Scotland has set out a multi-year programme to develop the fraud and error service, including the arrangements to estimate fraud and error. This will begin with a pilot client contact review of the fraud and error that exists in the Scottish Child Payment caseload.

76. The 2026/27 budget includes £19.3 million capital budget that will be held centrally until projects have been identified. A minimum amount of £5.1 million is ring fenced for organisation priorities and this includes fraud and error investment. A business case to request funding for technology to support this work was approved by the joint Strategic Workforce, Finance and Investment Forum in May 2026.

There is evidence that Social Security Scotland continues to invest in systems to prevent and detect fraud and error

77. Social Security Scotland's Fraud and Error Resolution Unit continue to use proactive and reactive activity to identify and correct errors in the benefit caseload. This work includes analysis of previous errors to identify risk characteristics that can be used to find other cases with similar profile.

78. The Fraud and Error Resolution services secured a total corrective value of £18.4 million in 2025/26. This is an increase of 47 per cent in comparison with £12.5 million in 2024/25. Social Security Scotland project future savings of £6.9 million relating to these corrections, an increase of 62 per cent from 2024/25. This demonstrates that the continued investment in the prevention and detection of fraud and error is

delivering positive results for Social Security Scotland. As demonstrated in Social Security Scotland's capital programme, further investment is planned in fraud and error in future years.

79. Internal audit completed a review of the Error Interventions Service during 2025/26. The review identified one medium and three low priority recommendations and received a reasonable assurance rating. It found that overall the service demonstrates a sound and well-managed control environment with clear accountability and effective oversight.

80. During 2025/26, the Fraud and Error Resolution Unit was restructured into three branches: Error Interventions and Insights, Counter Fraud, and Fraud and Error Systems and Data. This demonstrates an ongoing commitment to expanding the fraud and error capabilities within Social Security Scotland.

81. Work continues to develop the debt recovery service, including investment in IT, to drive efficiencies and further improve recovery rates. The introduction of enforced deductions to recover benefit overpayments is expected to be in place in 2026/27 meaning that outstanding debt can be taken directly from a client's award. A pilot exercise for civil recovery of debt through the sheriff courts was also launched in January 2026. Learning from this exercise will be used to extend this process across all benefits.

82. Further information on the follow-up of the related fraud and error recommendation 5 reported in the 2024/25 Annual Audit Report is provided in Appendix 1.

Financial Sustainability

Conclusion

The 2026/27 budget was set at £7.6 billion and this is made up of operating expenditure of £354.6 million and benefit expenditure of £7.2 billion. The benefit expenditure budget is based on Scottish Fiscal Commission independent forecasts and recognises the uncertainty within the forecasted benefit streams which are demand led.

Closure of the Scottish Government Social Security Programme on 31 March 2026 requires Social Security Scotland to reassess its long-term workforce requirements. Medium term financial plans identify a significant operational financial challenge from 2027/28 and Social Security Scotland needs to identify solutions to demonstrate financial sustainability in the medium to longer term.

83. The audit work performed on the arrangements Social Security Scotland has in place in relation to financial sustainability found them to be broadly effective and appropriate. Audit work has been performed in response to the significant wider scope risks identified in the Annual Audit Plan. The outcome of audit work is summarised at paragraphs 86 to 98.

The 2026/27 resource and capital budget has been set at £7.6 billion

84. The Social Security Scotland budget for 2026/27 was approved by the Executive Team on 24 March 2026. This includes an operating budget of £354.6 million and a benefit expenditure budget of £7.2 billion. In addition, a capital budget of £40.0 million has been agreed to support investment activity.

85. This is an overall increase of £781.5 million, or 10 per cent, on the 2025/26 revised budget. The majority of this increase relates to benefit expenditure, including £449.1 million for Adult Disability Payment. This type of spend is demand led and the budget is based on independent forecasts prepared by the Scottish Fiscal Commission. The Benefit Forecast Review Group continues to meet monthly to monitor in year benefit spend and forecasts.

Social Security Scotland has forecast to deliver on budget in 2026/27 but faces significant operational financial challenges in 2027/28

86. The latest financial monitoring report to June 2026 reported operating expenditure on plan against budget.

87. Benefit expenditure to June 2026 was reported as £1.6 billion, which is £53.3 million below plan. This is mainly due to caseload differences,

with Adult Disability Payment appearing lower than forecast as well as timing differences. The full year forecast of £7.2 billion is on plan against the budget allocation.

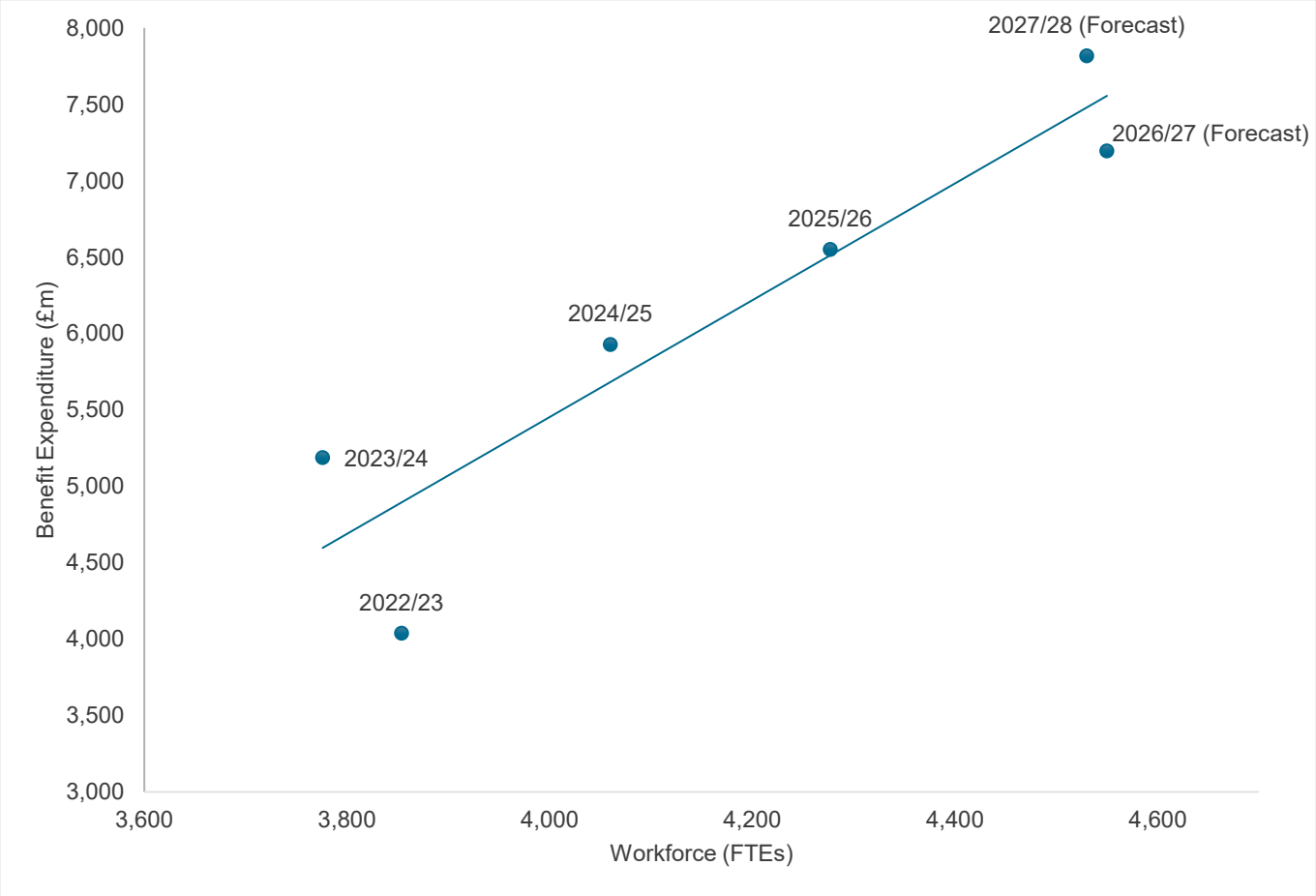
88. Social Security Scotland faces a significant financial challenge in 2027/28, with an indicative resource budget allocation of £313.4 million. This is £41.2 million below the 2026/27 allocation.

89. As part of the 2026/27 budget process, Social Security Scotland identified £11.0 million of savings and continues to assess further efficiency opportunities through workforce planning, vacancy management and investment in automation. Planned initiatives, including the Data Sharing Portal, are intended to streamline service delivery and reduce manual work. However, the efficiency gains and cost savings have still to be quantified.

90. Exhibit 6 outlines the trend in Social Security Scotland workforce numbers and the total benefit expenditure between 2022/23 and 2026/27.

Exhibit 6

Trends in workforce numbers and total benefit expenditure from 2022/23 to 2027/28



Source: Social Security Scotland Annual Reports and Accounts and published workforce statistics from the Social Security Scotland website.

Social Security Scotland faces increasing pressure to reduce operating expenditure

91. 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.

92. As part of the 2026/27 budget process, Social Security Scotland committed to absorbing £5.0 million efficiency savings through the budget settlement. To support delivery of savings for 2026/27, Social Security Scotland also identified £4.0 million of staff savings from a critical review of existing vacancies. As well as approximately £2.0 million of opportunities to capitalise existing staff in relation to their existing capital programme. The combined £11.0 million of savings are expected to be recurring.

93. A strategic approach to the budget setting process is in place with staff modelling used to understand resource requirements and 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 expected application volumes. The modelling is compared to budget allocations across the next five-year period to identify any gaps.

94. The Strategic Workforce Forum has worked alongside the Finance and Investment Forum, to address the financial sustainability risk with a particular focus on workforce planning and recurring savings. Modelling has been used to review workforce numbers and to calculate resource requirements against affordability in the longer-term with future pay awards representing a significant risk.

95. A joint forum was set up in 2025 and meets twice a year. The joint forum has been established to support coordination between the two forums and to ensure that workforce and financial plans are updated on a timely basis. This includes facilitating the timely consideration of developments such as business cases progressed and reflecting their impacts within the Financial Plan.

Closure of the Programme on 31 March 2026 requires Social Security Scotland to reassess its long-term workforce requirements

96. The Programme closed on 31 March 2026. This presents a key challenge for Social Security Scotland as it transitions from Programme delivery to business-as-usual operations. Programme closure resulted in the transfer of approximately 189 FTE staff from the Social Security Directorate to Social Security Scotland. The organisation expects to

employ around 4,550 FTE staff by 31 March 2027, with a staffing budget of £271.6 million for 2026/27 (2025/26: £243.1 million). Exhibit 6 illustrates the trend in workforce numbers alongside benefit expenditure between 2022/23 and 2026/27.

97. Social Security Scotland has implemented a new Operating Model that better reflects the future direction of Social Security Scotland. That now includes additional responsibility that used to sit with the Programme. Further work is required to assess the resources needed to deliver strategic objectives within the available funding in the longer term.

98. Management has recognised the need to review longer-term workforce requirements following the closure of the Programme. Through the Strategic Workforce Forum, work is underway to assess future resource requirements and align workforce plans with the Future Operating Model.

Recommendation 1

Social Security Scotland should develop sustainable plans to address the projected resource funding gap from 2027/28, including the identification of further recurring savings to align future expenditure with available funding.

Workforce modelling is integrated into medium and longer-term financial planning

99. Social Security Scotland maintains longer-term financial plans which are updated regularly through its corporate reporting and financial monitoring arrangements.

100. The Analysis and Insights team provides monthly workforce forecasts, including assumptions on pay, staffing levels, inflation, attrition and vacancies. The finance team uses this information to update short and longer-term financial projections.

101. Workforce modelling is embedded within three-year financial planning and informs budget setting, performance reporting and the Medium-Term Forecast and Risk submission to the Scottish Government. Regular engagement between Finance and the Analysis and Insights team supports the ongoing review of workforce assumptions. Scenario planning is used to assess the financial implications of workforce changes and potential savings opportunities.

102. We have concluded that the overarching arrangements in place to support financial sustainability are effective and appropriate. However, given the projected resource funding gap from 2027/28, Social Security Scotland will need to develop these arrangements further to identify and deliver sustainable savings solutions.

Assets valued at £294.0 million will transfer to Social Security Scotland from the Programme in 2026/27

103. No capital assets transferred to Social Security Scotland from the Programme during 2025/26. Work to transfer capital assets with an estimated net book value of £294.0 million during 2026/27 is ongoing. This includes the SPM case management system, which has an estimated net book value of £219.0 million.

104. Social Security Scotland has received asset information packs and is reviewing asset valuations, useful economic lives and the associated accounting treatment. A Senior Capital Finance Manager has been appointed to support the management of the capital asset transfer process during 2026/27.

105. Work to establish the accounting treatment and recognition arrangements for transferred assets is ongoing. We will monitor progress and assess the resulting accounting treatment as part of our 2026/27 audit.

The capital budget has increased to £40.0 million in 2026/27, a significant increase on the prior year budget of £1.2 million

106. Social Security Scotland has approved a capital budget of £40.0 million in 2026/27, which is an increase of £38.8 million from £1.2 million in 2025/26. Forecasting plans show a further increase to £65.0 million in 2027/28 and £35.0 million in 2028/29. The most significant part of the budget in 2026/27 relates to the investment in the Payment and Accounting Service (£11.0 million). Further information can be found at paragraph 66.

107. The remaining £29.0 million capital allocation for 2026/27 includes £5.1 million ringfenced for investment in fraud and error arrangements and the replacement of the debt management system, and other capital costs associated with the Payment and Accounting Service.

108. Social Security Scotland is developing its capital planning process to place greater emphasis on deliverability, timescales and the quality of supporting business cases. Robust capital planning will be important to support investment decisions and help the organisation manage financial pressures over the medium to longer term.

109. A Capital Monitoring Group was established in June 2026 and held its first meeting in August 2026. The group provides oversight of capital planning, programme delivery and the asset transfer process. It has an advisory role and reports significant spending changes to the Finance and Investment Board.

Long term projections show social security spending will increase to £9.2 billion in 2030/31, exceeding the block grant adjustment by £1.2 billion

110. Benefit expenditure is demand led and cannot be controlled in the same way as other budgets, where spending limits can be set. The budget is based on independent forecasts prepared by the Scottish Fiscal Commission and Benefit Forecasting Review Group, who meet monthly to monitor spend and forecasts.

111. The Scottish Fiscal Commission's forecast from January 2026, indicates that social security spend will increase from £7.4 billion in 2026/27 to £9.2 billion in 2030/31. This is driven by an annual increase in the number of people receiving disability and carer payments.

112. The Scottish Government has implemented policy and operational changes to improve the experience of people applying for its payments to maximise take-up. The effect of these changes has seen an increase in benefit payments above the level of block grant adjustments funding received. Spending exceeds the social security block grant funding adjustment by £1.1 billion in 2026/27, with this difference rising to £1.2 billion in 2030/31.

Vision, leadership and governance

Conclusion

Social Security Scotland is working with the Scottish Government to develop a five year strategic roadmap that will refresh its long-term vision. Once established, the roadmap should provide greater clarity on strategic priorities and intended outcomes.

Governance arrangements continued to operate effectively during 2025/26. Social Security Scotland has made recent changes to its governance forums to align with the new operating model.

Social Security Scotland has a clear vision and strategy

113. Social Security Scotland's Framework Document outlines its governance arrangements, including its relationship with Scottish Ministers and Scottish Government Directorates. It was reviewed in 2024 and covers the period to September 2027.

114. Social Security Scotland continued to operate in line with its 2024/27 Corporate Plan, which sets out its strategic objectives. The 2025/26 Business Plan was published in July 2025 and supports delivery of these objectives by outlining the key actions and activities for the year.

115. The Social Security (Scotland) Act 2018 requires the Scottish Government to maintain *Our Charter*. This sets out what people can expect from the Scottish social security system and underpins delivery based on dignity, fairness and respect. The Charter was updated in 2024/25 following a self-directed review ("Reviewing Our Charter: Research Findings"). Legislation requires the Charter to be reviewed at least every five years. The Corporate Plan and Business Plan are aligned to, and support delivery of, the Charter's principles.

116. Social Security Scotland is working with the Scottish Government to develop a Strategic Roadmap that will cover a five year period. This will be outcome focused and set out planned delivery of priorities that will contribute to strategic outcomes. The 2026/27 Business Plan was published in September 2026.

Social Security Scotland has reviewed its governance arrangements to support the new operating model.

117. The governance arrangements that were in place throughout 2025/26 continued to operate effectively. Based on our review of committee papers and attendance at Audit and Assurance Committee meetings, we found evidence of appropriate oversight, scrutiny and challenge of key strategic, financial and operational risks.

118. The Chair of the Audit and Assurance Committee will come to the end of his second four-year term in September 2026. Social Security Scotland has appointed three new non-executive to the Executive Advisory Body and the Audit and Assurance Committee from August 2026. Collectively, the appointments strengthen the skills and experience available to the Executive Advisory Board and Audit and Assurance Committee, including expertise in governance, financial technology, organisational transformation and large-scale service delivery. A comprehensive handover process is ongoing. This included new members attending meetings from August 2026, prior to the Chair's departure, and early engagement with both internal and external audit.

119. Social Security Scotland has reviewed its governance structure following Programme closure, to ensure it is appropriate and supports the new operating model.

120. The following five governance boards now exist as sub-boards of the Executive Team:

- Outcome Board (replaces the Benefit Performance Review Group)
- People and Capability Board
- Change and Delivery Board
- Finance and Investment Board
- Risk and Controls Board

121. The new governance arrangements include the establishment of a Change Delivery Board. This has been set up to provide oversight of change projects. The Board held its first meeting in May 2026.

122. During 2025/26, the Finance and Investment Forum continued to provide governance and scrutiny around spending plans. A separate Capital Monitoring Group has been established to provide scrutiny and challenge on capital projects.

123. The People and Capability Board will maintain strategic oversight of people and workforce including size, capacity, capability and organisational culture.

124. The Risk and Controls Group oversees the application of the risk framework with delegated authority from the Executive Team. There are quarterly Executive Team reviews and monthly operational updates.

Social Security Scotland has appropriate oversight of the risk related to cyber security

125. 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 2025/26, we considered Social Security Scotland's arrangements for managing cyber security risks.

126. Social Security Scotland recognises cyber security as a strategic risk and has arrangements in place to ensure it remains subject to regular consideration and scrutiny by those charged with governance. Cyber security is included within the Strategic Risk Register, which is regularly presented to the Audit and Assurance Committee.

127. There is evidence that Social Security Scotland continues to take action to address the risk of cyber security to Social Security Scotland. This includes the appointment of a specialist security provider from October 2026. A key next step is the planned assessment against the National Cyber Security Centre's Cyber Assessment Framework, which will help identify remaining gaps and prioritise further improvements to cyber resilience.

Use of resources to improve outcomes and Best Value

Conclusion

The ongoing work to develop an outcomes based approach to performance reporting is an important next step in the maturity of the Social Security Scotland performance management framework.

Progress has been made against the recommendations from Audit Scotland's Adult Disability Payment report to improve analytical performance reporting, to increase transparency and understanding of organisational performance. However, the absence of targets continues to limit Social Security Scotland's ability to demonstrate Best Value consistently and clearly identify underperformance.

Overall, effective and appropriate arrangements are in place to secure Best Value.

128. The audit work performed on the arrangements Social Security Scotland has in place in relation to the use of resource to improve outcomes found them to be broadly effective and appropriate. Audit work has been performed in response to the significant wider scope risks identified in the Annual Audit Plan. The outcome of audit work is summarised at paragraphs 138 to 141.

Duty of Best Value

129. 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.

130. The Charter Measurement Framework is the key tool for annual performance reporting. It is published annually and assesses how well Social Security Scotland and the Scottish Government are delivering on the Charter's commitments.

131. 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.

132. Consideration of the arrangements Social Security Scotland has in place to secure Best Value has been carried out alongside the wider scope audit. We have concluded that these arrangements are effective and appropriate.

Social Security Scotland has changed its performance management arrangements

133. The Benefit Performance Review Group was established as a sub-group of the Executive Team in 2025, and replaced the former Performance Forum. This change supported the development of a proactive approach to performance management. The focus of this approach was on continuous monitoring instead of scheduled reporting.

134. The performance framework in development covers operational, organisational and outcome performance, and will be embedded within divisional business plans. Initial implementation started in client service delivery and plans are in place to extend this approach across Social Security Scotland.

135. Operational performance against agreed expectations was regularly reviewed by the Benefit Performance Review Group during the year. The membership of this group extends beyond benefit services, helping to provide an organisation-wide view of performance.

136. The Benefit Performance Review Group also reviewed the balanced scorecard and corporate performance reporting, supported by a monthly flow of internal management information. Performance risks and issues are escalated to the Executive Team where required. The revised approach strengthened oversight of internal performance.

137. The Benefit Performance Review Group has now been replaced with the Outcomes Board. Further information on this is outlined in paragraph 120.

An outcome based approach to performance reporting is being developed through the publication of an annual Performance Framework Report

138. Social Security Scotland uses its Performance Framework, which sets out a series of high-level organisational outcomes and links these to a wide range of evidence sources such as client surveys, staff surveys, official statistics, social research and equality analyses. The Framework is designed to direct users to where performance information can be found.

139. Social Security Scotland is developing a Performance Framework Report that will report on the outcomes outlined in the Performance Framework. The report is being designed to bring together published statistics, research and evaluation evidence in a single, more accessible product. The structure of the report is focused on outcomes and summarises trends over time, supported by visual indicators where data is available. Where published data does not exist, the approach is to draw on internal analysis, research and policy evaluations to evidence performance against outcomes.

140. The Performance Framework Report will be published annually and data for 2025/26 is currently being collated. The report will also include a summary against sections of the Social Security Scotland Charter, as well as a link to the Annual Report and Accounts. This reflects a move towards alignment between operational performance information and outcomes reporting, supporting external scrutiny of performance.

141. Stakeholder engagement has also been built into the development of the Performance Framework Report. Social Security Scotland engaged external stakeholders to test the proposed content, format and indicators. An Operational Reference Group provided support with data analytics and the report also draws on existing evaluation activity, including published evaluations and Charter research.

Processing times for low income and carer benefits increased during 2025/26

142. During 2025/26 Social Security Scotland has experienced challenges in maintaining processing times across a number of low-income and carer benefits. Social Security Scotland has identified higher than expected application volumes and workforce pressures have contributed to the increase in processing times.

143. Published statistics show that the median average processing time for Best Start Grants and Best Start Foods increased from 10 working days in 2024/25 to 24 working days in 2025/26. The latest published statistics show that this increased to 32 days in June 2026. This is mainly due to workforce pressures as staff were redeployed to support the launch of the Pension Age Winter Heating Payment.

144. Similarly, for Scottish Child Payment processing times doubled from 11 working days in 2024/25 to 22 working days in 2025/26. The latest published statistics show a further increase to 33 working days in June 2026.

145. Due to challenges with data sharing, Carer Support Payment has increased from 21 working days in 2024/25 to 62 working days in 2025/26. The latest published statistics show processing time is 61 working days at June 2026. A support plan has been developed to reduce processing times by Autumn 2026.

146. Social Security Scotland has identified a range of actions aimed at improving processing performance. This includes measures to increase processing capacity, address application backlogs and improve the efficiency of operational processes. The impact of the actions on processing times will require to be monitored over time.

Social Security Scotland has made some progress against the recommendations from the Adult Disability Payment performance report

147. Audit Scotland published its performance audit of Adult Disability Payment in September 2025. The audit considered how well the Adult Disability Payment benefit has been implemented and the added value of the approach. There were six recommendations aimed at Social Security Scotland. Three were due for 2025/26 and these have been set out below.

The Scottish Government and Social Security Scotland should:

For the 2025/26 annual performance reporting publications:

- Define acceptable levels of satisfaction and build them into evaluation reporting. This will enable the Scottish Government and Social Security Scotland to identify and action areas of concern more quickly.
- Include analysis of client satisfaction to understand possible reasons for change, such as backlogs, success rates and the differences in survey results for new applicants and case transfers, and how trends may change over time.
- Add dignity, fairness and respect more clearly into performance frameworks.

'Adult Disability Payment' performance audit recommendations 2025/26

Source: Audit Scotland

148. Social Security Scotland has considered the recommendation to define acceptable levels of satisfaction but has decided not to set fixed targets at this stage. Engagement with stakeholders and reference to Charter commitments, suggest limited support for predefined satisfaction measures. It will continue to monitor and understand satisfaction within its Performance Framework Report that is due to be published in November 2026.

149. Social Security Scotland is progressing work to strengthen analysis of client satisfaction by linking survey results to operational and

contextual factors. The Performance Framework Report will highlight connections between satisfaction trends and factors such as processing times, caseload pressures, backlogs, staffing and resource changes, and policy or guidance updates. This analytical approach is intended to support earlier identification of emerging issues.

150. Social Security Scotland plans to embed dignity, fairness and respect within its Performance Framework Report and analytical reporting. Metrics are in place within the Charter Measurement Framework and associated analysis, although these are not expressed as formal key performance indicators (KPIs) or targets. Quality data is monitored through the Benefit Delivery Quality Framework to identify trends and risks, supporting continuous improvement and providing assurance over internal controls rather than compliance with predefined benchmarks.

151. Overall, there is evidence of improved analytical reporting, stronger use of trend data, and consideration of the factors influencing client experience. These developments represent positive progress and support greater transparency and understanding of organisational performance.

152. However, Social Security Scotland continues to rely on an approach that does not include explicit targets or KPIs within its performance framework citing risks of unintended consequences. While this approach is informed by stakeholder engagement and Charter commitments, it limits the extent to which Social Security Scotland can consistently demonstrate Best Value, particularly in setting out what acceptable performance looks like and how underperformance would be identified and addressed.

153. The report also included a recommendation that in 2026/27, Social Security Scotland should use the improved performance information to produce cost/benefit analyses of the cost drivers of the two areas of spend; benefit delivery and benefit expenditure. In response to this the finance team are working with the Analysis and Insights team to consider the best way to apportion staff costs by benefit. Internal audit is doing an advisory piece of work in 2026/27 to review the options for apportioning costs when an organisation has a flexible workforce. Work is ongoing in this area and we will monitor progress as part of our ongoing audit work.

154. Audit Scotland will publish a report, *Tackling child poverty: Scottish Child Payment* in November 2026. This audit will assess how well the Scottish Child Payment has been delivered, whether the Scottish Child Payment remains sustainable going forward and what impact the Scottish Child Payment is having. The audit scope is available on Audit Scotland's website.

Appendix 1 – Action plan 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Medium Term Strategic Plan development Social Security Scotland faces a significant financial challenge in 2027/28 and in future years, with an indicative resource budget allocation of £313.4 million. This is £41.2 million below the 2026/27 allocation. **Risk:** Social Security Scotland does not have plans in place to cover the funding gaps projected from 2027/28 onwards.	Social Security Scotland should develop sustainable plans to address the projected resource funding gap from 2027/28, including the identification of further recurring savings to align future expenditure to available funding. Paragraph 98	We recognise the need to balance the development of a sustainable long-term strategy with the challenges of the current fiscal environment. Senior leadership groups will provide oversight of organisational priorities, aligning organisational strategies to identify efficiencies, improve services and deliver sustainable savings over time. This will enable constructive challenge where assumptions or funding levels may not support planned delivery. Refreshed strategies will support development of the organisational delivery plan, and will inform key priorities and strategic objectives for the next corporate planning cycle. **Deputy Director, Organisational Strategy and Performance** **Director, Digital Delivery and Change** **Head of Finance** **July 2027**

Follow-up of prior year recommendations

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
1. Impairment Model Social Security Scotland has developed an impairment methodology based on the Department for Work and Pension's impairment model. A management decision was taken in 2024/25 not to implement this due to further work required to enhance the underlying data and to ensure the model provides accurate values. **Risk:** The value of benefit receivables and overpayments may be overstated and does not accurately reflect the recoverable amount.	**Recommendation:** As the transition of benefits will conclude in 2026, Social Security Scotland should continue to refine the management information which supports the impairment model for use in future years. **Management Response:** This is within our agreed workplan with the intention to implement in 2025/26. **Benefit Expenditure and Debt Finance Lead** **March 2026**	**Implemented**
2. Remuneration and Staff Report Our testing of the remuneration and staff report identified differences between the salary disclosure of executive and non-executive members and the underlying payroll data. This required an amendment to the remuneration disclosure of two executive members. **Risk:** Disclosures in the remuneration and staff report do not agree to underlying payroll records.	**Recommendation:** Social Security Scotland should complete a review of Remuneration and Staff Report disclosures before the unaudited annual report and accounts are provided to audit. **Management Response:** Reconciliation of remuneration and staff report disclosures to be incorporated into monthly monitoring processes. **Head of Finance** **March 2026**	**Ongoing** Exhibit 3 Whilst a monthly reconciliation has been introduced for Executive Team remuneration, 2025/26 testing identified four errors that required adjustment to the remuneration disclosure of two executive members and two non-executive members. A reconciliation will be introduced for non-executive members, ensuring the disclosure is reflective of Financial Reporting Manual requirements. **Head of Finance** **December 2026**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
3. Regular review of user access rights There is currently no formal process for management to regularly monitor or review user access rights to the Oracle general ledger system or the Social Programme Management (SPM) case management system. **Risk:** Users of the Oracle or SPM system may have unauthorised or inappropriate access rights.	**Recommendation:** Social Security Scotland should implement a formal, periodic review process to ensure that user access rights for the Oracle general ledger and the SPM case management system remain appropriate and aligned with current job roles. **Management Response:** The Scottish Government are responsible for access permissions and controls to the Oracle ERP platform. We will continue with our access controls and permissions reviews for all Oracle Finance and SPM users and ensure their access remains appropriate. **Chief Digital Office** **Head of Finance** **December 2025**	**Ongoing** Paragraph 56 Controls are now in place to review user access rights for Oracle. Controls are in place to monitor and review access and usage of SPM. Work is ongoing to improve role-based access controls for users. **Chief Digital Office** **March 2027**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
4. System Development An independent assessment of the digital ecosystem found that significant investment is required to maintain and develop the current systems that is essential for the sustainable delivery of services in the future. **Risk:** The capital funding provided to Social Security Scotland may be insufficient to support the critical maintenance, development, and enhancement of its systems.	**Recommendation:** Social Security Scotland should draw on the findings and recommendations from the independent assessment of the digital ecosystem to ensure funding is targeted towards priority areas for future investment. **Management Response:** Subject to financial allocations to Social Security Scotland we will develop detailed delivery plans supported by robust business cases to inform investment requirements; ensuring available budget is effectively targeted on priority systems and technology to deliver best value. **Peter Smith – Chief Digital Office** **March 2026**	**Ongoing** Paragraph 59 Drawing on recommendations from the independent assessment, we have already developed a short-term digital delivery plan to target areas of immediate priority. Our medium to long term delivery plans for digital maturity and sustainability are being incorporated into the organisation's strategic delivery plan for the next three to five years. **Head of Digital Maturity, Chief Digital Office** **July 2027**
5. Fraud and Error From 2025/26 Social Security Scotland will be responsible for delivering the majority of devolved benefit expenditure, making it increasingly important that it can estimate the fraud and error within the benefits it administers. **Risk:** Social Security Scotland is not able to estimate the level of fraud and error that exits in its benefit caseload.	**Recommendation:** Social Security Scotland should work at pace to ensure that the necessary resources and systems are in place to carry out fraud and error estimation exercises once the new regulations are in place. **Management Response:** 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** Paragraph 77 The capability required to estimate the overall level of fraud and error in benefits is still not in place and should be developed at pace. Work is progressing at pace in collaboration with Scottish Government colleagues to implement the necessary regulations, and to ensure readiness to implement estimation provisions. **Head of Fraud and Error Resolution** **Ongoing**

Matter giving rise to recommendation	Recommendation, agreed action, officer and timing	Update
6. Future Operating Model Funding Capabilities and services continue to transition from the Programme to Social Security Scotland and other parts of the Scottish Government as the Programme approaches the end of its lifecycle. Social Security Scotland is developing a Future Operating Model and is considering future funding requirements and specific areas that require investment. **Risk:** All costs are not fully funded for the expected transfer of services and staff by 31 March 2026 and beyond.	**Recommendation:** Social Security Scotland should work with the Scottish Government to agree and secure adequate funding to support its staffing and operational needs beyond March 2026. This should include a detailed assessment of the resources required to implement the Future Operating Model and deliver its strategic objectives. **Management Response:** We will work with the Scottish Government Social Security Programme to manage transition and support successful programme closure. **Deputy Director, Finance and Corporate Services** **Deputy Director Organisational, Strategy and Performance** **Deputy Director, Social Security Programme** **2026**	**Implemented**

Appendix 2 – National Reports

Report name	Date published
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025
Delivering for the future: Responding to the workforce challenge	7 August 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Adult Disability Payment	18 September 2025
Scotland's colleges 2025	2 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Financial sustainability and taxes	13 November 2025
NHS in Scotland 2025: Finance and performance	4 December 2025
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
Community health and social care: Performance 2025	8 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026

Social Security Scotland

2025/26 Annual Audit Report

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