The 2019/20 audit of Social Security Scotland

AUDITOR GENERAL

Prepared for the Public Audit and Post-Legislative Scrutiny Committee by the Auditor General for Scotland
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000
December 2020

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Introduction

1. This report is made under section 22 of the Public Finance and Accountability (Scotland) Act 2000. Its purpose is to bring to Parliament's attention issues arising from the annual audit of Social Security Scotland. The independent auditor's report includes:

- an unqualified opinion on the financial statements; which means he is content they show a true and fair view, and follow relevant accounting standards and rules

- a qualified opinion on the regularity of expenditure and income because of overpayments of Carer's Allowance attributable to error and fraud. Expenditure resulting from such overpayments was not incurred in accordance with the Social Security Contributions and Benefits Act 1992.

Regularity is the requirement that a financial transaction is consistent with relevant legislation and underlying regulations

2. The independent auditor also qualified his regularity opinion in relation to Carer's Allowance expenditure in 2018/19. The Auditor General for Scotland reported to the Scottish Parliament on the qualification, and Social Security Scotland's wider arrangements for the management of error and fraud, in September 2019.

3. This report also provides an update on the progress Social Security Scotland has made on establishing error and fraud management arrangements and looks ahead to the key issues and challenges being faced.

Background

4. Social Security Scotland is an executive agency of the Scottish Government, responsible for the delivery of the social security benefits devolved to Scotland from the UK Government under the Scotland Act (2016). Responsibility for the implementation of the benefits and the systems and infrastructure needed to administer them sits with the Scottish Government's social security programme. Social Security Scotland and the social security programme work collectively to achieve the safe and secure delivery of the devolved benefits.

5. The Scottish Government has set out a clear ambition to develop a social security system which is based on the principles of dignity, fairness and respect. This commitment influences the design and delivery of the policies, processes and systems.

6. Administrative responsibility and accountability for the benefits - executive competence - has been devolved in stages. For the 2019/20 audit year, the Scottish Government was responsible for Carer's Allowance, Sure Start Maternity Grant (which it has replaced and extended with Best Start Grants) and Funeral Expenses Payment (which it has replaced with Funeral Support Payment). Social Security Scotland also administered three Scottish only benefits, Carer's Allowance Supplement, Young Carer Grant and Best Start Foods (administered on behalf of the Scottish Government's Health Directorate). Executive competence for most remaining devolved benefits transferred on 1 April 2020, at which point Social Security Scotland became accountable for approximately £3.5 billion of annual social security expenditure. Exhibit 2 sets out the benefits Social Security Scotland is now accountable for.

7. Social Security Scotland works closely with the Department for Work and Pensions (DWP) for the administration of benefits. The Scottish Government has agreed that the DWP will continue to administer Carer's Allowance and other benefits on its behalf, until it is able to directly administer them.

8. On 1 April 2020 the Scottish Government announced changes to its delivery timetable for the remaining devolved benefits due to the impact of the Covid-19 pandemic. The UK Government has agreed to continue administering existing benefits on the Scottish Government's behalf over an extended transition period. This delivery will be managed through agency agreements.

9. Further announcements followed in August 2020 for the delivery of the Scottish Child Payment and Child Winter Heating Assistance. In November 2020 the Scottish Government set out its revised delivery plans for Child Disability Payment and Adult Disability Payment. Exhibit 1 sets out the devolved benefits the Scottish Government has delivered so far and its current commitments for delivery of the remaining benefits. Social Security Scotland depends on close engagement with the Scottish Government's social security programme in order to plan for the introduction of new benefits.

10. The pandemic has also affected the way in which Social Security Scotland is operating. Like many organisations, it has moved to home working for most of its staff. It has put in place new telephony, online chat functions and additional control measures to enable client advisors to operate from home.

Exhibit 1
Timeline of social security powers being devolved through the Scotland Act 2016

2018

The Act

Social Security (Scotland) Act 2018 received Royal Assent
June 2018

The Agency

Social Security Scotland
Established in September 2018

Benefits

Wave 1 benefits delivered	
Carer's Allowance Supplement	2018
Best Start Grant and Foods	2018 & 2019
Funeral Support Payment	2019
Young Carer Grant	2019

2020

Executive competence

Transferred 1 April 2020
The Scottish Government, through Social Security Scotland, is now accountable for delivery and expenditure on the devolved benefits. Estimated at £3.5 billion in 2020/21.

Covid-19

Scottish Government announce delay to implementation timetable due to the pandemic. DWP will continue delivering existing benefits, on Scottish Government's behalf.

Wave 1 benefits	Delivery date pre Covid-19	Revised delivery
Job Start Payment	Spring 2020	August 2020

Wave 2 benefits	Delivery date pre Covid-19	Revised delivery
Severe Disablement Benefit Allowance[1]	April 2020	April 2020
Scottish Child Payment (under 6s)	Applications: Autumn 2020 Payments: Christmas 2020	Applications: November 2020 Payments: February 2021
Winter Heating Assistance – Children	By end 2020	November 2020
Child Disability Payment	Summer 2020	**Pilot:** Summer 2021 **Full roll out:** Autumn 2021
Adult Disability Payment	Early 2021	**Pilot:** Spring 2022 **Full roll out:** Summer 2022
Carer's Additional Child Payment	Early 2021	Delivery timetable being revised - dates to be announced
Pension Age Disability Payment	End of 2021	
Cold Spell Heating Assistance	Winter 2021	
Winter Heating Assistance – Older People	Winter 2021	
Scottish Carer's Assistance	Early 2022	
Industrial Injuries Disablement Benefit	Autumn 2022	
Scottish Child Payment (under 16s)	End of 2022	

All existing claims to be transferred from DWP to Social Security Scotland over a longer transition period.

Note: 1. This benefit will continue to be delivered by the DWP on behalf of Scottish Government.
Source: Audit Scotland, using data from the Scottish Government

Key messages

- **The independent auditor has qualified his regularity opinion on the accounts of Social Security Scotland because of overpayments of Carer's Allowance. The DWP estimates the level of error and fraud in the benefit to be 5.2 per cent, which means an estimated £14.8 million of overpayments were made in Scotland. This expenditure was not in line with the relevant legislation.**
- **Social Security Scotland has strengthened its arrangements for the prevention and detection of error and fraud over the last year. Further development is required in key areas, including reporting on error and fraud levels and clearer guidance on determining residency.**
- **The impact of error and fraud within the expenditure will remain an audit risk. Social Security Scotland is now accountable for benefits with an estimated annual expenditure of £3.5 billion. Many of these benefits are continuing to be delivered by the DWP on the Scottish Government's behalf, meaning that Social Security Scotland will be reliant on DWP error and fraud estimates.**
- **The continuing impact of the Covid-19 pandemic will increase uncertainty and financial risks in an already challenging environment. The implications of changes to delivery timelines and arrangements for benefit delivery are complex. Changes in eligibility and uptake rates may increase Scottish social security expenditure, but the net impact on the Scottish budget will depend on how this compares to spending patterns in other parts of Great Britain.**

The independent auditor's opinion on the accounts

Carer's Allowance expenditure

11. Social Security Scotland's 2019/20 financial statements include Carer's Allowance expenditure of £284.4 million. The auditor has qualified his regularity opinion in relation to this due to the level of error and fraud in this expenditure, with an estimated £14.8 million of overpayments during the year.

12. As set out above, Carer's Allowance is being delivered by the DWP on behalf of the Scottish Government, through an agency agreement. Under this agreement, the benefit continues to be regulated by UK legislation, in this case section 70 of the Social Security Contributions and Benefits Act 1992. A person is entitled to Carer's Allowance if they meet the eligibility criteria set out in this Act and related regulations. Any payment made to a person who is not entitled to it, does not comply with the legislation and is therefore irregular.

13. It is Social Security Scotland's responsibility to ensure it can appropriately assess the levels of error and fraud in the benefits in its annual accounts. Due to the delivery arrangement being used, Social Security Scotland cannot directly assess the levels of error and fraud in Carer's Allowance and is instead reliant on the DWP's published estimates.

14. The independent auditor previously qualified his regularity opinion on Social Security Scotland's 2018/19 accounts, also in relation to error and fraud in Carer's Allowance. At this point the qualification was made on a limitation of scope basis due to the age of the available error and fraud estimates, which dated from 1996/97. This meant that there was not enough evidence to determine whether the expenditure had been made in line with relevant legislation.

15. In May 2020 the DWP produced updated estimates of the extent of error and fraud within the Carer's Allowance benefit expenditure. A rate of 5.2 per cent was confirmed. This means that there is an estimated £14.8 million of irregular Carer's Allowance expenditure within Social Security Scotland's accounts. The auditor has deemed this to be material to the accounts.

16. This issue does not affect the other aspects of the auditor's regularity opinion that relate to Carer's Allowance. He has confirmed in his audit certificate that he is content the amounts incurred are in line with the Budget Act, relate to devolved matters and have been appropriately met from the Scottish Consolidated Fund.

17. There is an inherent risk of error and fraud in a social security system, which is driven by individual claims. The system can be complex with different eligibility criteria and administrative arrangements for each benefit. The Comptroller and Auditor General of the National Audit Office has qualified the regularity opinion on the DWP's accounts for the last 31 years due to levels of error and fraud.

Other benefit expenditure

18. The same regularity issue does not affect the other benefits in Social Security Scotland's accounts in 2019/20. This is due to the different legislation which applies to these benefits. For Best Start Grants, Funeral Support Payment and Young Carer Grant, Social Security Scotland is required to make a payment where it has determined someone is eligible. Any payment in line with a determination complies with the legislation, irrespective of whether the determination has been based on incorrect or fraudulent information.

19. For Carer's Allowance Supplement, legislation states a payment must be made where an individual is in receipt of Carer's Allowance on the qualifying dates and lives in Scotland. Any payment made as a result of an individual meeting these conditions complies with the legislation, irrespective of whether the award of Carer's Allowance itself has been made on incorrect or fraudulent information. We set out more detail on these different arrangements in our September 2019 report.

20. This does not mean that there is no error and fraud in these benefits. Entitlement to Carer's Allowance Supplement, Best Start Grants, Funeral Support Payment and Young Carer Grant (except in some specific cases) requires a person to be in receipt of a qualifying UK benefit, such as Universal Credit. Most recent DWP and HMRC estimates of error and fraud rates in these qualifying benefits range from 3.9 per cent to 9.4 per cent. The Scottish benefit caseload is likely to include cases where the qualifying benefit has been awarded because of error or fraud.

21. Error and fraud can also arise from other aspects of the administration of benefits, for example in verifying a person's identity, checking bank details, and assessing whether residency criteria has been met. The social security system is complex and relies on accurate information about the circumstances of individuals and how these change over time. Mistakes can be made that lead to errors in the amounts paid to individuals, both underpayments and overpayments. It is Social Security Scotland's responsibility to understand and monitor the impact of these error and fraud risks.

Social Security Scotland's management of error and fraud

Overall arrangements

22. Social Security Scotland has strengthened its arrangements for the prevention and detection of error and fraud over the last year, and now has key error and fraud policies and strategies in place:

- Error Control Strategy 2018-2022 - sets out the approach to minimising error and meeting its strategic objective to protect its budget.

- Counter Fraud Strategy 2018-2022 - sets out the five key strategy objectives which are to deter, prevent, detect, investigate and enforce against fraudulent activity

- Statutory code of practice for investigations, published in February 2020 - sets out the powers, standards, how investigations are run, investigation outcomes and the complaints process. This allows Social Security Scotland to implement the powers necessary to undertake investigative activity.

23. Social Security Scotland's error and fraud team has continued to expand, increasing from 17 FTE to over 40 FTE over the past year. This increase is in line with the organisation's plans and the team's capacity will continue to be increased as Social Security Scotland takes on the delivery of more benefits. The team has responsibility for:

- risk analysis and control
- external investigations of potential benefit fraud
- internal investigations and controls
- adjudications and recovery.

24. Social Security Scotland has established appropriate mechanisms to deal with error and fraud issues that arise. It can conduct interviews under caution and has the power to report cases to the procurator fiscal. A range of training is provided to staff within the error and fraud team to ensure they have relevant and continuously updated skills and knowledge.

25. An intervention team has also been established to provide a centralised service, tasked with identification and correction of errors, associated trend analysis and continuous improvement feedback. This team has begun to carry out both random sampling and targeted sampling which focuses on cases where error is more likely. This activity gives Social Security Scotland the ability to monitor error rates and assess whether its processes are working effectively. Targeted sampling indicated that around 75 per cent of errors had already been identified and corrected. The intervention team is continuing to develop its sampling approach to include a wider range of risks and ensure a higher proportion of errors are routinely identified and appropriately referred for action.

Digital systems

26. Social Security Scotland is reliant on the Scottish Government's social security programme for the delivery of the digital systems it needs to administer benefits. We have previously reported that it was not sufficiently involved in the process of prioritising system design and improvements to ensure its operational needs were being met[1]. Social Security Scotland now has greater involvement in determining priorities, through regular contact with the programme and involvement in key decision-making forums. In a complex and fast-paced delivery programme there will continue to be competing priorities and the need for trade-offs in what can be delivered at key points. There needs to be a shared understanding of the operational impacts of decisions about digital systems and what can be accepted.

27. Social Security Scotland has identified some ongoing weaknesses within its core case management system which increases the risk of error and fraud. Ongoing improvements have been made to digital systems however a range of manual processes remain in place to mitigate identified issues. We reported on these issues in our May 2019 report *Social Security: Implementing the devolved powers* and in our report on the 2018/19 audit. Manual processes are not as robust as system solutions as they rely on consistent application by staff. Testing carried out as part of our audit process did not identify any concerns with how individual

[1] Social security: Implementing the devolved powers

applications had been processed and issues had been appropriately reported internally.

Estimating error and fraud levels

28. Estimating and reporting on the levels of error and fraud within the benefits system is essential to support decision-making and ensure the appropriate and effective use of public money. Social Security Scotland's progress on developing these arrangements has been limited.

29. During 2019, work started with the Cabinet Office Counter Fraud Centre of Expertise to explore approaches and methodologies. Due to the impact of the Covid-19 pandemic, the Cabinet Office had to postpone assisting with this work as resources were redeployed elsewhere. Social Security Scotland hopes to be able to continue this work early in 2021 but this is dependent on support being available.

30. For the benefits administered by the DWP through agency agreements, Social Security Scotland is reliant on the estimates produced by the DWP. The impact of the Covid-19 pandemic will affect the DWP's ability to produce estimates in 2020/21. We discuss the impact of this in more detail below.

Application and administration processes

31. To support the values of dignity, fairness and respect, the social security programme and Social Security Scotland have tried to balance ease of access for people with the need to have a secure system. In our report on the 2018/19 audit, we highlighted some of the risks Social Security Scotland would need to consider as a result of striking this balance.

32. A specific risk area we highlighted was the approach being used to determine whether residency criteria was being met. Being 'ordinarily resident' is the main definition used for the Scottish benefits and Social Security Scotland uses an applicant's current postcode as evidence of residency. There is no clear guidance on how the term 'ordinarily resident' is to be interpreted for people applying for benefits or for the staff processing them. Social Security Scotland is now working with the Scottish Government's social security programme to review this. This will become increasingly important as further benefits come on stream.

33. To support ease of application, administration processes have been designed to make as much use as possible of existing evidence about an applicant. For example, by using DWP systems to verify information. Where required, many supporting documents can be provided online rather than in paper format and copies of some documents will be accepted. This is aimed at reducing barriers to making an application but consequently carries error and fraud risks for Social Security Scotland which need to be managed.

Looking ahead

34. The Scottish Government took on executive competence for the most significant and complex devolved benefits on 1 April 2020. This means that in 2020/21 Social Security Scotland will be accountable for an estimated £3.5 billion of benefit expenditure. Becoming accountable for this wider range of complex and high value benefits would have been a significant organisational challenge for Social Security Scotland under normal circumstances. The continuing impact of the Covid-19 pandemic increases the uncertainty and financial risk in an already complex environment.

35. Social Security Scotland has adapted quickly to respond to the Covid-19 pandemic, ensuring that it can maintain administration of benefit while addressing the safe working of its staff. We will continue to assess the detail and impact of these arrangements though our audit work.

Covid-19 impact on delivery plans

36. The Scottish Government had planned to launch replacements for some of the disability related benefits in 2020/21 which would have been administered by Social Security Scotland. In response to the pandemic, the government's planned timetable is now subject to change and delay. This has led to the Scottish Government asking the DWP to continue to deliver existing benefits to Scottish recipients over a longer than originally planned transition period. Exhibit 2 sets out the range of delivery arrangements Social Security Scotland will have in place during 2020/21.

37. While devolved benefits continue to be delivered by the DWP, they will be administered under the existing UK regulations on a business-as-usual basis. As with Carer's Allowance, Social Security Scotland will not be able to directly assess the levels of error and fraud in these benefits and will be reliant on the DWPs estimates.

38. The pandemic is affecting how DWP estimates error and fraud for 2020/21. It will not be able to carry out some of the case review activity required, as current restrictions mean that claimant visits cannot take place. There is also significant redeployment of staff in DWP which will affect its capacity in this area. DWP intend to publish a statistically valid system wide estimate of error and fraud in 2020/21.

39. Due to the delivery arrangements, error and fraud rates within these benefits will affect the regularity of Social Security Scotland's expenditure, as is currently the case for Carer's Allowance.

Exhibit 2
Benefit delivery arrangements

Benefit	2020/21 forecast	Delivery arrangement	Applications process
Carer's Allowance	£292 million	DWP delivering on Scottish Government's behalf under agency agreement.	Applications made to DWP with no change to previous processes.
Disability Living Allowance (DLA)	£719 million		
Industrial Injuries Disablement Support	£80 million		
Personal Independence Payment (PIP)	£1, 583 million		
Attendance Allowance	£532 million		
Severe Disablement Allowance	£7 million		

Cont.

Benefit	2020/21 forecast	Delivery arrangement	Applications process
Carer's Allowance Supplement	£39 million	Social Security Scotland	No application.
additional one-off payment in June 2020	£19 million		Data from DWP used to identify eligible recipients (based on postcode).
Best Start Grants	£18 million	Social Security Scotland	Application made to Social Security Scotland (online, telephone, mail).
Funeral Support Payment	£9 million		Data from DWP used to check applicant's receipt of underlying benefit and to verify identity.
Young Carer Grant	£1 million		
Job Start Grant	£1 million		
Scottish Child Payment (under 6s)	£11 million		

Source: Audit Scotland

40. Overpayments due to error and fraud will be a continuing audit risk for Social Security Scotland, the impact of which will grow given the significant increase in benefit expenditure. Forecast expenditure levels for Scotland, and current DWP error and fraud estimates, indicate the potential scale of overpayments. For example:

- £1.583 billion of PIP expenditure is forecast in 2020/21 and DWP estimated an overpayment rate of 1.5 per cent in 2019/20
- £719 million of DLA expenditure is forecast in 2020/21 and DWP estimated an overpayment rate of 1.9 per cent in 2019/20
- £532 million of Attendance Allowance expenditure is forecast in 2020/21 and DWP estimated an overpayment rate of 1.9 per cent in 2019/20.

41. This indicates the potential for irregular expenditure in excess of £47 million, in addition to any irregular Carer's Allowance expenditure, within future Social Security Scotland accounts. Some of DWP's error and fraud estimates for these benefits have not been updated for several years. This and other factors may affect the use of these estimates in future years.

42. The Covid-19 pandemic will also have a range of operational impacts for Social Security Scotland, which may affect error and fraud prevalence. Additional control measures have been introduced to address the risks associated with the move to a home working environment. Social Security Scotland has continued to recruit staff, using digital approaches, but recognises that supporting these staff into the live operational environment while working remotely will be very challenging. Longer term workforce plans will need to be revised to reflect new timelines and delivery decisions.

43. The DWP, which the Scottish Government is highly reliant on to progress its social security programme, has also been significantly affected by the pandemic. It has had to manage a huge increase in Universal Credit applications. In response it has redeployed central staff into front-line roles and has paused all non-essential programmes of work. Some application processes have been changed to manage the increased volume of applications and the limitations on face-to-face activity.

44. It is important that Social Security Scotland continues to engage closely with the DWP to understand what is planned in relation to error and fraud estimates and what impact this will have on the accounts in future years.

Covid-19 impact on benefit eligibility and uptake

45. The pandemic, and action in response to it, raise significant economic and financial pressures for the Scottish Government. The demand-led nature of benefit expenditure raises challenges for budget management, with all eligible claims requiring to be met. Changes in eligibility and uptake rates because of the pandemic will have direct financial consequences for Social Security Scotland. The dynamics of this are complex and the extent of any change in demand is currently unclear, with benefits being affected in different ways due to their eligibility criteria and recipient characteristics.

46. There has been a significant impact on employment and incomes across Scotland and the UK, with a large rise in applications for Universal Credit. In Scotland the number of households in receipt of Universal Credit has almost doubled from January to August 2020, increasing from 243,641 to 473,973. Universal Credit is one of the main qualifying benefits for the Scottish Government's low-income benefits. The increase in Universal Credit caseload may result in increased applications for Scottish benefits.

47. Expenditure on Scottish-only benefits is met entirely from the Scottish budget, so any increases will need to be managed within this. The Scottish Child Payment is a major new Scottish benefit which will be affected by any changes in underlying eligibility resulting in higher than anticipated expenditure. The Scottish Fiscal Commission has increased its forecast from £65 million to £77 million for 2021/22, an increase of 18.5 per cent. For 2020/21 this will likely be offset by the reduced expenditure from the delay in launching the benefit which is estimated at £12 million. Longer term budgets will need to cover the expected increased uptake.

48. Understanding the impact of increased eligibility and uptake of benefits which are replacements, in full or part, of GB benefits is more complex. The fiscal framework sets out a process whereby the funding the Scottish Government receives from the UK government is adjusted to take account of changes to equivalent benefits spend at the GB level. Where actual spend in Scotland diverges from trends within the rest of GB or the Scottish Government has expanded the benefit in any way, this needs to be met from within the wider Scottish budget. At this point, the relative impact of the pandemic on benefit expenditure in Scotland compared to the rest of GB remains uncertain.

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