

9 February 2023

Mr Richard Leonard MSP
Convener Public Audit Committee
Scottish Parliament
Edinburgh
EH99 1SP

Dear Convener

On 19 January 2023 I briefed the Committee on my Section 22 report on the 2021/22 audit of the Scottish Government Consolidated Accounts. Committee members raised some additional questions for which I set out my responses below:

Governance arrangements

- *We note that you have previously highlighted concerns relating to governance arrangements in the Scottish Government. Do you consider that positive progress has been made in this area?*

The Scottish Government continued to strengthen aspects of its governance arrangements during 2021/22, at a time when the Scottish Government was contending with the Covid-19 response and recovery, EU withdrawal and changes in senior staff.

Following the appointment of the new Permanent Secretary, the Executive Team's role and responsibilities were reviewed. The Executive Team now meets frequently but in different Governance 'modes', aimed at addressing the key priorities and issues facing the Scottish Government. These different modes include delivery (weekly meetings to consider priorities, risk and finance); strategy (fortnightly meetings covering corporate matters) and people (fortnightly meetings covering workforce matters).

I welcome this development and the renewed focus it aims to have on addressing key priorities and issues and I shall continue to review the impact of these changes.

- *What further developments do you believe would support effective governance in the Scottish Government?*

My report refers to the volume of challenges faced by the Scottish Government throughout the year and, as a consequence, there continued to be considerable strain placed on staffing capacity and wellbeing. This is likely to intensify in the years ahead given the Scottish Government's intention to limit the size of the public sector workforce to pre-Covid levels by 2026/27. The development of a comprehensive workforce strategy will help to ensure that its approach to staffing levels is appropriately planned and coordinated across the organisation.

I referred above to the change in the Executive Team's governance modes. This new approach to the running of the Executive Team provides an opportunity for a further review of governance arrangements within the Scottish Government. This would provide a fresh opportunity to consider its governance and operational structures, streamline its decision-making processes,

and assess senior membership and attendance to ensure it can fully support the various demands, both internal and external, on the organisation in the years ahead.

Corporate transformation

- *What are the implications of delays or a scaling back of the Scottish Government's corporate transformation project?*

The Scottish Government refer to the need for corporate transformation as a way to achieve greater efficiencies in the longer term. As part of this transformation, the Scottish Government has committed to the implementation of a human resources and financial planning system.

Delays or scaling back of the corporate transformation project will result on continued reliance on old, possibly outdated systems which are neither efficient nor effective. In addition there may be an increased risk around the security of these systems, together with greater cyber risk and the costs of maintaining these systems could increase. The benefits of the new systems, for example more timely reporting, will also be delayed and will impact on working practices.

- *What is the scale of the potential cost over-runs in relation to the corporate transformation project?*

The Scottish Government has not developed a budget for the whole programme yet, so the potential costs are unknown. The Scottish Government would be better placed to provide the Committee with cost estimates for the whole programme as well as the human resources and financial planning systems.

Additional information

- *The Scottish Government's Business Investment Framework*

I referred to the timing of the creation of the Strategic Commercial Assets Division which will apply the elements laid down in the framework. I also referred to some areas of the framework which could be further developed, in particular, strengthening financial control over interventions, expanding commercial outcomes to include outcomes for the public such as jobs and future growth opportunities and linking risk tolerance and risk appetite for investment considering the financial capacity of the Scottish Government.

I have confirmed that we do not have any information on whether there are cases where the Scottish Government has decided not to invest and that it might be better for the Committee to follow up directly with the Scottish Government.

- *The use of estimates to assess the level of fraud and error.*

The 2021/22 accounts of Social Security Scotland include benefit expenditure of £3.320 billion administered by the Department for Work and Pensions (DWP) under agency agreements with Scottish ministers. Due to these delivery arrangements, Social Security Scotland cannot directly assess the levels of fraud and error in these benefits and is instead reliant on the DWP's annually published estimates. The estimated overpayments as a result of fraud and error in relation to each type of benefit that is delivered by the DWP, ranged from 1.5 to 5.2 per cent of expenditure. This means that in 2021/22, an estimated £67.5 million of overpayments were made in Scotland. In 2020/21, the external auditor reported that fraud and error was estimated to be £65.4 million.

The estimate relates to the level of fraud and error in the benefit system in Great Britain and are underpinned by reviews of claimants in England, Wales and Scotland. The DWP pays welfare

benefits to around 23 million people so it is not possible to test every payment for errors, hence the need to test a sample of claims and assess whether the claim is correct or not. In 2022, the DWP sampled around 12,840 claims (0.06 per cent of benefit claimants). If the claim is not correct, it is classified into either fraud, claimant error or official error. The percentage of fraud and error found from the sample is then extrapolated across the specific benefit programme. The DWP reported overpayments of £8.6 billion in 2022. The DWP can recover overpayments. For example the DWP reports that they recovered £1.0 billion overpayments in 2022.

The auditors of the DWP have had concerns about the overall reliability of the estimate and have drawn attention to it in their annual audit report for many years. They have encouraged the DWP to undertake more work and more sample testing to improve the reliability of the estimate. We have not specifically reviewed recoveries; this will be done by the auditors of the DWP.

The 2021/22 annual audit of Social Security Scotland included a historical review of the fraud and error rates published by DWP. In most cases this confirmed that the rates have remained relatively stable over time. Audit work also considered the experience, objectivity and quality control procedures that support the development of the fraud and error rates.

I hope the Committee finds this helpful.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Boyle', with a long horizontal flourish extending to the right.

Stephen Boyle
Auditor General for Scotland