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AUDITOR GENERAL

28 April 2017

Liz Ditchburn
Director-General Economy
Scottish Government
St Andrew's House
Regent Road
Edinburgh
EH3 3DG

Dear Liz

I have pleasure in enclosing the clearance draft for our update report on the CAP Futures Programme. The report reviews the progress the Scottish Government has made with delivering the programme, including processing applications and making payments.

I would be grateful if you could confirm by 19 May 2017 that you are satisfied with the factual accuracy of the report. As work on the programme is ongoing, this is also an opportunity to provide us with any updates on progress. We are also waiting on further evidence on the assessment of disallowance, and the full version of the Technical Assurance report.

I would also like to express my thanks to you and your team for the constructive engagement during the process.

If you have any comments on the report, or if there are any significant issues that require review, it would be extremely helpful if your office could liaise with Morag Campsie before 19 May 2017, (mcampsie@audit-scotland.gov.uk). The audit team has arranged to meet with you and Elinor Mitchell on 10 May 2017 to discuss any matters arising.

The intended publication date is 15 June 2017. I will be presenting the report to the Public Audit Committee on 29 June 2017.

Yours sincerely

Caroline Gardner

Caroline Gardner
Auditor General for Scotland

CAP Futures programme:

Further update

CLEARANCE DRAFT in confidence

AUDIT SCOTLAND

Prepared for the Auditor General for Scotland

June 2017

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively**.**

Contents

Summary

Key Messages

1. **The Scottish Government's Common Agricultural Policy (CAP) Futures programme started in 2012 and was a five-year business change and Information Technology (IT) programme to deliver CAP reform. We reported in May 2016 that the programme was having significant difficulties and made a number of recommendations to mitigate the risks that remained. The challenges were deep-rooted and the programme has had to try and rectify them whilst continuing to process and make payments. The difficulties encountered in previous years continue to have a significant impact on the processing of current applications and payments.**
2. **The programme closed at the end of March 2017 but parts of the IT system continue to be developed by the Agriculture and Rural Economy (ARE) directorate. It expects to deliver the minimum scope of a system that complies with CAP regulations within the £178 million budget, but the Scottish Government will need to incur additional costs relating to the system. Two contracts, worth a further £33 million, with existing suppliers have been extended to further develop the Futures IT system and maintain existing systems. A disaster recovery solution covering all IT systems has not yet been developed and tested. To date, the programme has not delivered value for money or the planned benefits.**
3. **The rural payments system made payments for 2015 applications and is making payments for 2016 applications, but two months later than planned. The Scottish Government established schemes to loan funds from the Scottish budget during 2016 to ensure farmers got money more quickly. This introduced a higher level of risk to the wider Scottish Government budget. Delays in making payments meant loans could not be recovered as quickly as planned, meaning the budget used to fund these loans could not be used for its intended purpose.**
4. **There continues to be a risk that the Scottish Government will not deliver its aim to minimise financial penalties charged by the European Commission (EC) for not complying with regulations. The Scottish Government estimates it will incur penalties of around £5 million for missing payment deadlines in 2016. In addition, our 2015/16 European audit of agricultural funds highlighted weaknesses in controls arising from deficiencies in the CAP Futures system and the manual workarounds which have been used to resolve problems with the system. This may result in additional financial penalties of up to £60 million subject to an assessment of the specific circumstance by the EC. The Scottish Government has not developed a detailed analysis of the risk of these penalties to help prioritise future investment in the system.**

5. The Scottish Government has introduced new leadership and a new governance structure within the directorate. The new structure is designed to be make decision-making more transparent, and to increase management capacity. These changes will take time to embed, and short-term payment priorities and challenges are consuming a considerable amount of management time.
6. Programme activity is moving into the directorate and some contractors will leave. Transferring knowledge from contractors to staff within the business is a significant challenge due to the short timescales and the immediate payment priorities. Management have identified a number of key roles and areas where they rely on contractor's knowledge, and need to prioritise knowledge transfer over other activity.
7. The process starting negotiations to leave the EU commenced on 29 March 2017. It is too early to know exactly what this will mean for farmers, crofters and rural businesses. The UK Government has guaranteed to fully fund agreed agriculture schemes up to 2020, even if this is beyond the UK's departure from the EU.

Recommendations

In our May 2016 report we made four recommendations, and an assessment of progress against these is included at Appendix 3. Three of the recommendations are outstanding and updated below:

- Complete a detailed assessment of the risk of financial penalties to enable informed decisions on prioritisation of further work to improve and add functionality to the system
- Prioritise and make time for the transfer of knowledge and expertise from programme staff to staff in the business
- Develop and test a disaster recovery solution covering the whole IT system taking account of the level of risk that the Scottish Government is prepared to accept

The Scottish Government is undertaking a range of activity to improve business processes in the longer-term. We support this and make the following recommendations for the Scottish Government to implement as part of this activity:

- Put arrangements in place to ensure requirements are clearly defined, including the number and availability of specialist staff with relevant expertise
- Develop and keep under review processes for monitoring and testing quality
- Develop a framework to prioritise future investment in the system, this should balance:

  - **budget availability**
  - **customer expectations**
  - **EC regulations and audit findings**
  - **IT system requirements**
- **Develop a benefit realisation plan to record and monitor all potential benefits and value that the system can provide**
- **Clear and timely communication to farmers, rural businesses and delivery partners on payment timescales and processes**
- **Communication internally about the values and ways of working of the directorate**
- **Ensure leadership operates strategically across the directorate**

Introduction

1. In 2012, the Scottish Government started a five-year programme to improve its business processes and IT systems to implement the European Union's Common Agricultural Policy (CAP) reforms from 2015 onwards. This was known as the CAP Futures programme (the programme). The programme's main aim was to build an IT system that would minimise financial penalties for not complying with European Commission (EC) regulations, enhance customer experience, and make processes more efficient.

2. The programme has faced significant problems from the start and the Auditor General for Scotland and Audit Scotland have provided updates on the programme's progress since October 2014. In May 2016, we reported in detail on the programme difficulties and identified a number of actions that the Scottish Government should take to address the identified risks. Exhibit 1 provides a summary of our reporting timeline on the programme.

Exhibit 1 Our previous CAP Futures reports

[links/icons to previous reports]

- The 2013/14 audit of the Scottish Government consolidated accounts: Common Agricultural Policy Futures programme
- Written update to the Scottish Parliament Public Audit Committee April 2015
- The 2014/15 audit of the Scottish Government consolidated accounts, October 2015
- Common Agricultural Policy Futures programme: An update, May 2016
- The 2015/16 audit of the Scottish Government consolidated accounts, September 2016

3. The Scottish Government formally closed the programme on 31 March 2017. Some parts of the system are still being developed and will be delivered by the same directorate, the Agriculture and Rural Economy Directorate (ARE), formerly known as the Agriculture, Food, and Rural Communities Directorate (AFRC).

Background

4. The European Union's Common Agricultural Policy (CAP) began in 1962 with the twin aims of improving agricultural productivity to ensure a stable supply of affordable food, and providing farmers with reliable income. Financial support is provided under two funding 'pillars' through a number of agreed schemes. Appendix 1 provides an extract from our May 2016 report setting out the two funding pillars. Farmers, crofters and rural businesses have to apply to receive funding under the relevant schemes. Pillar 1 payments are also known as direct payments and the main scheme is the basic payment scheme (BPS).

5. The EU reforms the CAP about every seven years with the current regulations starting in 2014. The Scottish Government estimated that it would pay around £4.5 billion to farmers and rural businesses under the two funding pillars over the current CAP period up to 2020.

6. The high-level policy is set at a European level but, in recognition of the diversity of the rural economies within the EU, each member state is responsible for deciding how CAP is applied within its own territory. The Scottish Government's ARE directorate is responsible for delivering the CAP in Scotland. It is one of the four paying agencies within the UK: the others being England, Wales and Northern Ireland. Each paying agency is responsible for designing the detailed schemes to be applied in the area it covers. The Scottish Government consulted the agricultural sector before agreeing its approach. This led to some significant changes in the schemes, for example, the introduction of a third regional classification for land.

7. Each scheme must follow a number of regulations set by the European Commission (EC). The EC can charge financial penalties, known as disallowance, if it considers there are weaknesses in the administration and control of CAP payments. Examples include:

- failing to make the required payments within set timescales
- misinterpreting or breaching regulations
- identifying weaknesses in financial and administrative controls that are considered a risk to EU funds.

8. The effect of these penalties is to reduce the amount of EU funding paid. Most European states incur some disallowance, and as at March 2017 the Scottish

Government had incurred around £xx million in disallowance for a number of failures in the previous CAP.

9. Our report in May 2016 identified that:

- there was a significant risk that the Scottish Government would not deliver its aim to minimise financial penalties as it was at risk of missing EC deadlines
- the system it was building might not be fully CAP compliant.

10. On 23 June 2016 the UK electorate voted to leave the EU with the process to start negotiations to leave starting on 29 March 2017. It is too early to know exactly what the outcome of this will mean for farmers, crofters and rural businesses in particular. The UK Government has guaranteed to fully fund all agricultural schemes signed before the 2016 Autumn statement up to 2020, even if these continue beyond the UK's departure from the EU.

About this report

11. This report assesses the progress of the programme since our May 2016 report as the programme closes and transitions into the business, that is, the ARE directorate. Part 1 focuses on progress over the last year and on payments to farmers, and what risks remain. Part 2 considers leadership and governance, including, the structures in place for planning and delivery, decision-making, review and scrutiny.

12. Significant work is still ongoing with critical milestones still to be met. Our report reviews progress up to May 2017 highlighting current and continuing risks to delivery. It focuses on the delivery of Pillar 1 schemes and payments. It also considers other schemes for which the single application form applies.

13. Our findings are based on a review of documents, supplemented by discussions with relevant civil servants and CGI, the main supplier of software development services on the programme (Appendix 2). We have focussed on how the Scottish Government has overseen and managed the overall programme. We will monitor progress as part of our annual audit work on the Scottish Government consolidated accounts and will report to the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee as appropriate.

14. In our May 2016 report we highlighted that we would produce a summary of the lessons learned from the CAP Futures programme along with other similar programmes that we have reported on. We published this summary in May 2017. We used our findings along with those of other bodies from around the world to produce a set of principles for public bodies to consider when undertaking digital programmes.

Part 1: Progress update

Key Messages

1. **The difficulties encountered in previous years continue to have an impact on payments. SAF 2016 payments have started, but this was 2 months later than forecast as the system needed further development and improvements. The Scottish Government operated a number of loan schemes in 2016 to get money to farmers quicker but this introduced more risk to the wider Scottish Government budget and put pressure on payment delivery timescales and staff.**
2. **The programme closed at the end of March 2017 but the ARE directorate will continue to deliver some parts of the system. It expects that the system will deliver the minimum required scope to comply with EC regulations within the £178 million budget. The directorate will incur additional costs to improve and stabilise the system. Two contracts, worth a further £33 million, with existing suppliers have been extended to deliver more functionality and maintain legacy systems. The directorate has not yet developed and tested a disaster recovery solution covering all IT systems.**
3. **There continues to be a risk that the Scottish Government will not deliver its aims to minimise financial penalties. The Scottish Government estimates it will incur around £5 million in penalties as a result of missing payment deadlines in 2016. Findings from our 2015/16 European audit highlighted weaknesses in controls due to deficiencies in the system and the use of manual workarounds to resolve problems. This may result in additional financial penalties, potentially up to £60 million subject to an assessment of the specific circumstance by the EC. The Scottish Government has not completed a detailed assessment of the risk of disallowance to help prioritise future investment in the system.**
4. **Our May 2016 report highlighted that the programme would not deliver the wider benefits envisaged. The Scottish Government has reduced or removed some of the anticipated future savings that were to be made by the system. To date, the programme has not delivered value for money.**

Basic Payment Scheme payments must be made within the broad annual timetable set by the European Commission

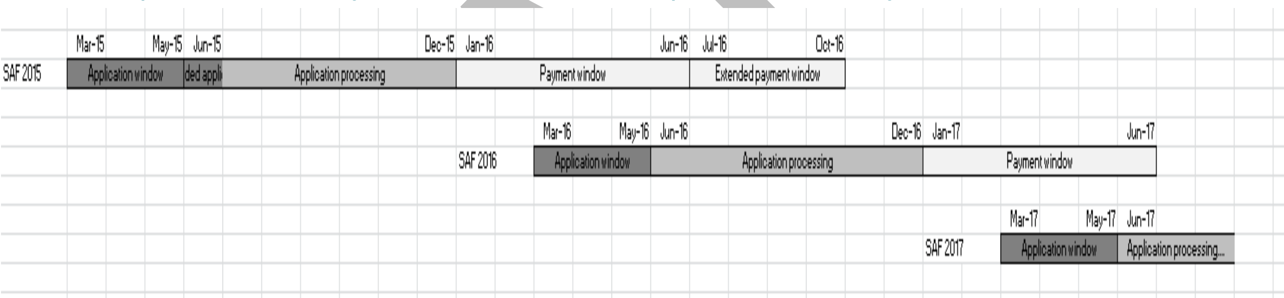
15. Within the current six-year CAP period of 2014-20, EC milestones and deadlines need to be met each year. The EC offered extensions to some of these deadlines for the Basic Payment Scheme (BPS) in 2016 due to difficulties some paying agencies were having implementing the new CAP in its first year. The main milestones and deadlines are set out below:

- Mid-March to mid-May - window for applications to the BPS (extended to mid-June in 2015 and 2016)
- 1 December to 30 June - window for payments to be made without incurring financial penalties (extended to mid-October for 2016)

16. This is an annual cycle, which means that delays to the process in one year cause process overlaps with, and delays to, subsequent annual cycles (Exhibit 2)

Exhibit 2 Annual timetable for basic payments (TO BE DEVELOPED)

The overlap between CAP years has a knock-on impact on the next year



Timeline showing key dates of last 3 years and overlap

Each year all farmers who want to apply for direct payment (pillar 1) support, and for the Less Favoured Areas Support Scheme (pillar 2), need to fill out a single application form (SAF) on the system. The assessment and processing of the application then determines the payment.

Will be a side box

The application process has improved

17. Our May 2016 report highlighted that the system opened on time for applications for 2015 payments, but had performance problems for the first six weeks. System functionality for the 2016 applications had improved and no major problems occurred. Online applications for 2017 opened on time on 15 March, and no major system problems have been noted to date. There was an issue extracting data from the system

for the paper version of the forms and these were not issued until xxx March 2017 (awaiting further info). This means that applicants choosing to complete a paper form have less time to do so than if completing online as the closing date is the same for both, 15 May 2017. Exhibit 3 (page 11) shows the number of applications received for each year.

Exhibit 3

Application numbers for each year to date [TO BE UPDATED]

	SAF 2015	SAF 2016	SAF 2017
Applications received by May deadline	**19,000**	**16,629**	**Xxxx**
Percentage online	**65%**	**74 %**	**X%**

[3780 online applications submitted, 4689 in draft with 359 paper applications received as at 26th April and 359 paper applications received at Area Office]

Source: Scottish Government

The Scottish Government continues to have difficulties making payments

Payments for SAF 2015 applications were slow but are almost complete

18. Our May 2016 report and September 2016 update highlighted that the programme missed key programme milestones or ministerial targets for payments to farmers, crofters and rural businesses for applications made in 2015. Under EC regulations, in a normal year the majority of payments (95.25 per cent) require to be made by 30 June each year. This applies on a member state basis. Therefore the UK as a whole needs to meet this target in order to avoid financial penalties.

19. In addition, any funds paid after this date are only reimbursed by the EU on a sliding scale. Due to difficulties experienced across Europe with the first year of the new CAP, the EC offered an extension to the penalty-free period until 15 October 2016 which the Scottish Government opted to use.

20. The Scottish Government reports that it has met the EC regulations, paying 18,327 (99%) farmers £343.2 million by 15 October 2016. Twenty-two 2015 BPS payments to farmers are still outstanding (around £40,000). Currently, the system is not able to make 2015 and 2016 payments at the same time. This is related to the processing of loan payments. Outstanding SAF 2015 payments were placed on hold to allow SAF 2016 payments to start.

21. Payments for the pillar 2 Less-Favoured Area Support Scheme (LFASS), claims for which are received via the SAF, did not start until 31 October 2016. These payments usually start in March each year. Around 1700 payments with a total value of £xxxx are outstanding. [to be updated]

SAF 2016 payments started later than planned

22. No timeline or ministerial targets were announced setting out when the 2016 payment round would start. Programme documents indicate that payments should have started in January 2017. This would have been slightly later than the previous year when payments started on 29 December 2015.

23. The first payments were made on 27 March 2017. The system required significant development to be able to make SAF 2016 payments. This was due to a number of factors, including:

- In the rush to develop the system to make SAF 2015 payments, not enough attention was paid to how the system would be able to make SAF 2016 payments.
- Errors in the system were fixed with short-term measures rather than changes that fixed the underlying issues. The system therefore required significant changes this year to fix these issues.
- The addition of functionality for parts of the system that required manual interventions to make SAF 2015 payments.

24. The software required to deliver the functionality needed to process applications and make payments was delayed by 2 months and software to select and process inspection findings is taking significantly longer than expected. The software was originally forecast to be delivered December 2016, but this moved to 19 May. This provided a window of approximately 6 weeks to make final payments. Final payments cannot be made without this functionality. The software went live on x.

25. Senior management within the ARE directorate also wanted to make sure payments were accurate and so waited until detailed checks were done before starting payments. Similar to the previous year, SAF 2016 payments will be made in two parts, with a first payment at 90 per cent of the previous year payment, and a final 10 per cent, once the final amount is calculated.

The Scottish Government budget is being used to pay farmers more quickly

26. In our May 2016 report we reported that the Scottish Government used funds from another part of its budget to ensure that farmers received some money more quickly, due to delays with the 2015 payments. Between February and March 2016, the Scottish Government announced three different national loans schemes, with the following amounts available for each:

- a £20 million cash flow loan scheme
- a £200 million national basic payments loans scheme

- a £55 million national pillar 2 Less Favoured Area Support Scheme loan scheme.

27. In September 2016 the Cabinet Secretary for Rural Economy and Connectivity announced the launch of a further national basic payment loan scheme. This was due to anticipated delays in making SAF 2016 payments. Up to £300 million was open to all farmers, crofters, and rural businesses eligible for the basic, greening or young farmer payments as part of the SAF 2016 payment round. This scheme was on an opt-in basis, meaning farmers had to apply, whereas the equivalent scheme for SAF 2015 was on an opt-out basis. Loans were issued at eighty per cent of the payment value.

28. Due to continued delays developing software to make 2016 LFASS payments and forecast delays in making those payments, the Cabinet Secretary for Rural Economy and Connectivity announced a further £50 million loan scheme on 5 April 2017.

29. All loan schemes are funded from part of the Scottish Government's financial transactions budget which supports loans schemes that go beyond the public sector. Loans are recovered once the actual EU payments have been made to farmers. Exhibit 4 shows the current position for recovering loans.

Exhibit 4 (TO BE FURTHER DEVELOPED to combine table with timeline showing what period the schemes operated, which year's budget each was from, and what's outstanding. Awaiting information for advances and recoveries during the year on a monthly basis)

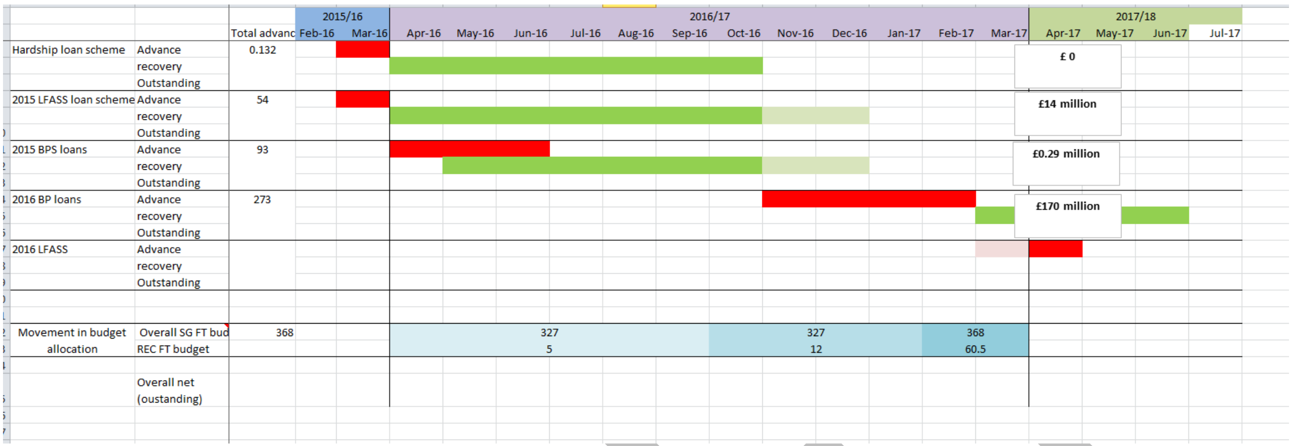


Table loans made and loans recovered to xx April 2017

		Loans relating to 2015 payments		Loans relating to 2016 payments	
Loans	BPS Loans paid out	5,286	£93m**	13,246	£272.89m***
	BPS Loans recovered	5,234	£92.7m	Number/xx	
	LFASS loans paid out	11,056	£54m	xxx	
	LFASS loans recovered	Xxx	£40m		
	Cash flow loans paid out	15	£0.1m		
	Cash flow loans recovered	15	£0.1m		

**SAF 2015 loan scheme for BPS started in April 2016

*** SAF 2016 loan scheme for BPS started in November 2016

The CAP Futures programme ended on 31 March 2017

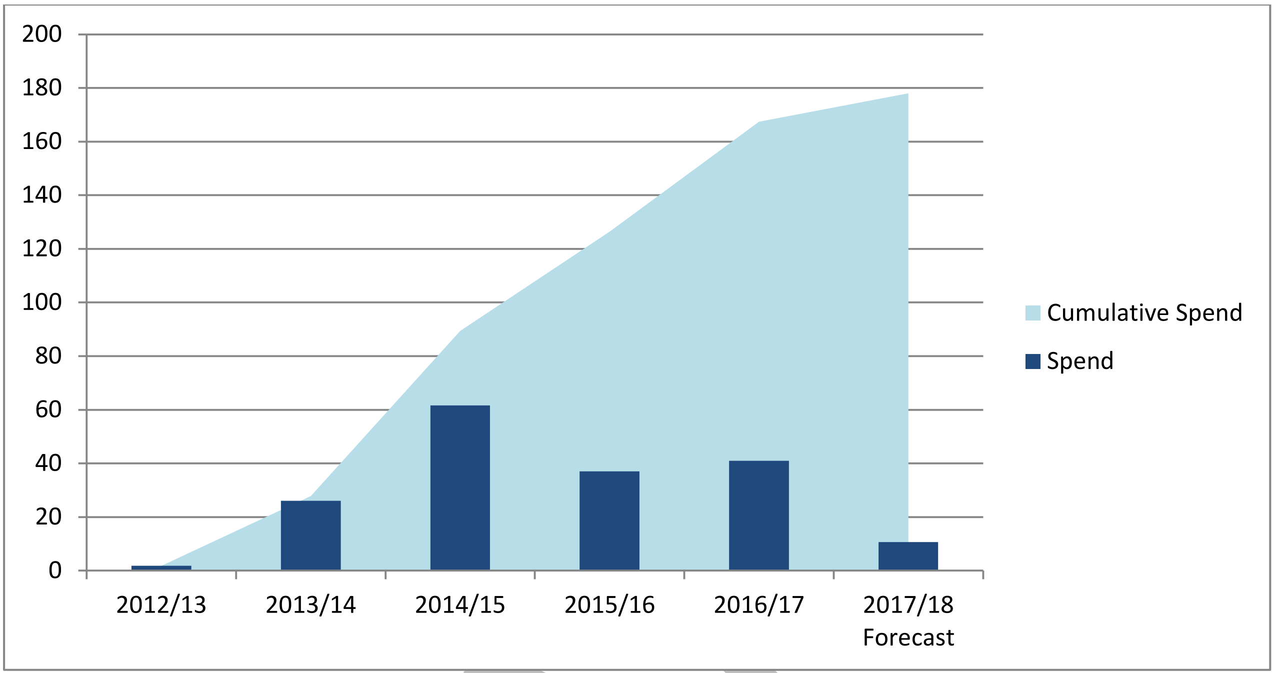
30. The Scottish Government closed the programme on 31 March 2017 as forecast in the original plans. From April 2017, the functions previously provided by the programme overseeing the development of the rural payments system were integrated into the ARE directorate. While the programme ceased at the end of March, work will continue across a number of key projects.

The programme had spent £168 million by end March 2017

31. Last year we reported that the Scottish Government was working within the £178 million set out in its April 2015 business case. As at 31 March 2017 the programme had spent £168 million.

32. Exhibit 5 (page 15) shows the actual spend for the five years of the programme. The 2016/17 figures are estimates and will be confirmed through the annual accounts process. Most of the money was spent on delivering the rural payments system. As at 31 March 2017 around £107 million had been paid to the software development supplier CGI. Most of these costs are for CGI staff including contractors. Contractor numbers have remained relatively stable over the last 12 months, fluctuating between 185 and 202 (Exhibit 6, page 16).

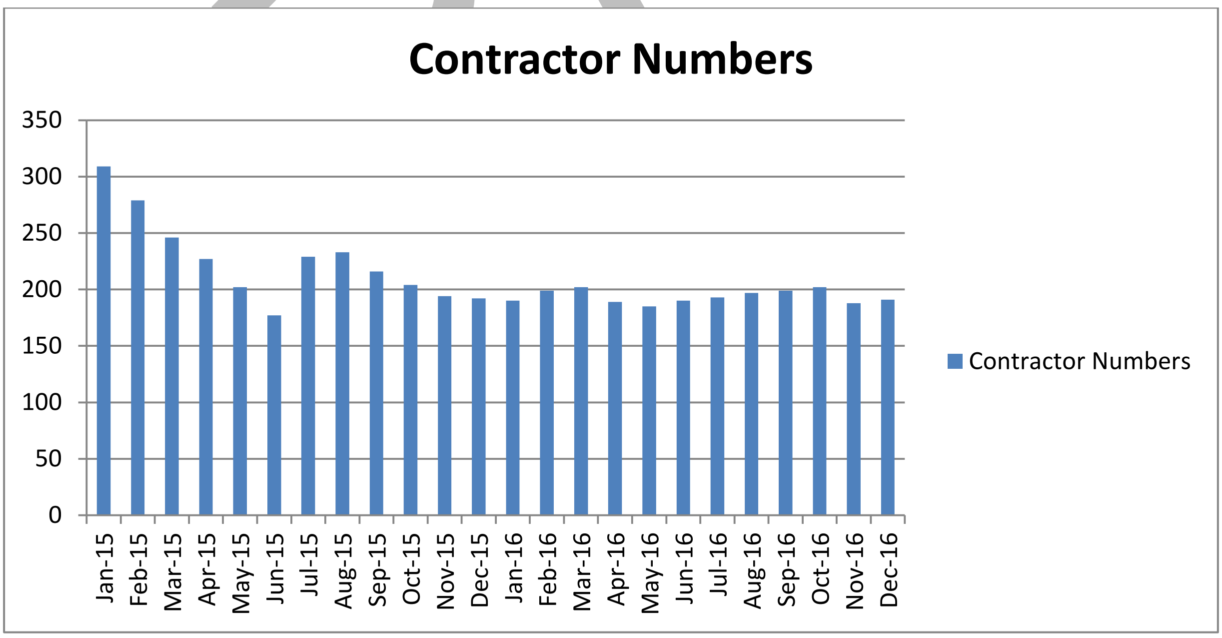
Exhibit 5 Actual spending per year of programme (continuation of Exhibit 6 from May report)



Source: Scottish Government

Exhibit 6 Contractor numbers

Total number of contractors working on the programme



Source: Scottish Government

The Scottish Government forecasts it will deliver the minimum scope within £178 million budget

33. We reported in May 2016 that the scope of the programme had significantly reduced from the original plans. The Scottish Government aims to deliver a system to the minimum possible level to comply with EC requirements. The following were removed from the programme scope:

- Integrate remaining pillar 2 schemes with the rural payments system.
- Improve business processes including electronic records management.
- Improve customer and user experiences through enhanced reporting and functionality.

34. The Scottish Government expects that the minimum scope will be delivered within the last programme budget estimate of £178 million. There was significant work in April and May on two critical software releases that will enable functionality on inspections selection and findings to achieve CAP compliance. In addition, three key systems are still being developed and the remainder of the budget has been set aside to complete work on these during 2017. The remaining costs are summarised in Table 1 below.

Table 1 Remaining programme costs

Forecast costs to 31 March 2017	**£168 m ***
1) Development of new customer management system (Scheme Accounting and Customer Account Management System- SACAMS)	**£2.6 m**
2) New land-mapping IT system (Land Parcel Information System - LPIS)	**£4 m**
3) Pillar 2 capital claims to payments functionality for agri-environment schemes and the forestry grant scheme	**£1 m**
Software releases for inspections selections and findings	**£1.9 m**
Resolution of defects	**£0.4 m**
Total budget	**£177.9 m**

*Subject to audit of 2016/17 Scottish Government consolidated accounts

Source: Scottish Government

35. The three systems need to be delivered for the whole system to be CAP compliant. Currently, the functionality is delivered by legacy systems. Now that the programme has come to an end these systems will be developed and delivered within the Information Systems Division of the ARE directorate. Specific projects have been set up to manage the development of these three systems. Until these systems are in place there is a risk that the overall system will not deliver the EC requirements within the timescales and budget.

The Scottish Government will continue to incur costs related to the rural payments systems

36. The Scottish Government recognises that the system will still require upgrades and additional functionality over the 2017 payment cycle. The ARE directorate budget will need to meet the costs of this. While some upgrades and changes for new or amended regulations are always to be expected, it is likely that, in the short-term at least, development work will be more than would normally be expected.

37. Further functionality will have to be developed or redesigned to ensure the rural payments system is CAP compliant. Examples include functionality:

- to process SAF forms and make payments in relation to pillar 1 livestock schemes
- to process pillar 2 Less Favoured Area Support Scheme
- for the overall audit trail.

38. Ten software releases are currently planned between July 2017 and January 2018 including releases for SACAMS and LPIS. During 2016, the functionality to process pillar 2 claims was deprioritised in favour of pillar 1. This means there is now a backlog of work to continue the development needed for pillar 1 and pillar 2 claims. All this is being done in parallel to the processing of SAF 2015 and SAF 2016 payments, recovering loans, and processing SAF 2017 applications. In addition, the ARE directorate will have to manage the transition of the programme to be delivered by the business.

39. For the reasons set out above, it is likely that the rural payments system will not be functioning as anticipated until SAF 2018 at the earliest. This means there is a higher risk of weaknesses in system and administrative controls existing if not all parts of the system are in place until then.

The contract with CGI has been extended for two years

40. The directorate recognises that it cannot deliver all the systems development work in house and requires support and resources from an external partner. The original four-year contract with CGI to deliver the rural payments system started in March 2013. It included an option to extend the contract for a maximum of two years. The initial

contract period was due to end in March 2017 in line with the end of the programme. With key parts of the system still to be built the programme team assessed its options, holding workshops and negotiations with CGI from July to August 2016.

41. The £29 million two year contract extension was agreed on 15 September 2016 and included the following conditions:

- CGI invests in employing 38 permanent staff in Scotland
- Day rates were fixed from 1 November 2016, with contractors above agreed rates replaced by permanent CGI staff or by CGI meeting the cost.
- CGI commits to reduction in contractor staff over time. For example, it committed to reducing headcount by 25 per cent by April 2017.
- The reintroduction of a financial penalties and reward scheme.

42. The contract will continue to operate largely as a time and materials contract, where the Scottish Government is billed on the number of hours worked by contractors with different rates for different skills levels. This is because the Scottish Government is still unable to clearly define requirements for the systems that it needs. We identified this as a key issue in May 2016. Reasons for this include:

- not having enough specialists within the directorate who understand the complex requirements
- the programme's inability to fully integrate with the software developers at key points in the development process owing to other work commitments.

43. The Scottish Government has also had to extend a contract with another supplier, worth £2.5 million. This is to ensure that its legacy systems, which are still operating and are essential for making CAP compliant payments, are still supported and can work with the rural payments system being developed. These systems have had to be used for longer than planned because the rural payments system being developed is not currently able to provide all the functionality. The ARE directorate will need to cover this additional cost.

Contract management has improved

44. The programme implemented improved contract management and cost controls. This meant it had a clearer picture of staff and overtime levels and could challenge and review these.

45. Under the terms of the new contract agreement (paragraph 41) the Scottish Government has withheld £100,000 from CGI since 1 November 2016. This has been for CGI failing to meet agreed timescales for delivering the functionality required to start making payments to farmers in January 2017 for SAF applications received in 2016. Through the contract negotiation with CGI, rates were renegotiated and CGI agreed to cover the additional cost of any contractor on rates above those agreed in the

framework. Since 1 November 2016 CGI has incurred costs of £200,000 for these above-framework rates.

46. The new contract with CGI forecast that the number of contractors would be reduced by 25 per cent by April 2017. However, the Scottish Government and CGI have agreed that this reduction will not happen due to the level of systems development work that is urgently required for the SAF 2016 payments. This means that the forecast cost will also not reduce.

An independent technical review found that the system needs significant further investment

47. The Scottish Government commissioned an independent technical assurance review in December to help assess the capability and stability of the parts of the rural payments system that had been built to that point. The final report was presented to the main programme governance boards in April 2017. The review found that the system's design and infrastructure was fundamentally sound but significant investment would be needed to develop, rewrite and redesign parts of it. It also noted that the lack of a fully tested and coherent disaster recovery plan put the system at risk.

48. The review noted that the time pressure the programme was working under and the decision to make payments quicker had meant some governance practices, such as system documentation and quality controls, had been sacrificed. It also highlighted that failure to have detailed requirements right from the start and throughout the programme had led to delays and increased cost of development. There are differences between the documentation explaining how the system is designed and operates and how the system has actually been built. This increases the risk to the future stability of the system and increases the reliance on key staff and suppliers.

49. The findings indicate that while the system is functioning it is likely to cost more to operate and maintain than was originally envisaged, and future enhancements and upgrades may also be more complex and cost more. The Scottish Government is working with the review's authors and CGI to develop an action plan and to determine the value of investment needed to address the issues highlighted in the report. The directorate budget will also need to meet the cost of this additional work on the system.

There are still no disaster recovery arrangements covering the whole of the rural payments process

50. Our May 2016 report highlighted that there was no robust disaster recovery arrangements in place for some of the related IT systems, for example legacy systems such as LPIS. Legacy systems are still being used to support the rural payments system. The recent technical assurance review noted this as a risk that needed to be addressed. At the moment processing applications and making payments involve using the new rural payments system and some legacy systems that are reaching the end of

their life. This exposes the system to risk and there is still no fully tested disaster recovery system in place.

51. Any data in the rural payments system could be recovered if the system failed. The Scottish Government estimates it would be able to get the system running again within 4 hours of any disruption, although this has not been tested. Arrangements are in place to prevent loss of data from legacy systems but it could take weeks to get these fully operational again if a disruption occurred.

52. The directorate has started to consider what arrangements are needed to mitigate the risk arising from the current lack of disaster recovery plans. It needs to assess the level of risk it can accept at key times in the payment cycle, and how long it can tolerate the systems being unavailable for.

The Scottish Government continues to face significant risks from the programme

53. In our May 2016 report we highlighted four main risks arising from programme delivery and decisions made on payments and loans. These risks remain:

- Failure to meet EC deadlines.
- Disallowance will not be minimised.
- Risks to the wider Scottish Government budget.
- The full range of benefits will not be achieved.

The Scottish Government met the extended deadline for SAF 2015 payments

54. The Scottish Government is reporting that it made the target of making 95.25 per cent of payments by the extended penalty free payment deadline of mid-October 2016 (paragraph 20). However, the Scottish Government missed the deadline for sending out final letters of entitlement by 1 April in 2016. In addition, 46 BPS claims were still to be paid when the extended penalty free period ended on 15 October 2016. The Scottish Government has estimated and provided for around £5 million in financial penalties as a result. Had the EC not offered and extension to the penalty free period the Scottish Government could have incurred penalties up to £20 million.

55. There is a risk that the Scottish Government will not meet this year's end of June deadline for SAF 16 payments. Management are forecasting that they will be able to make 95.25 per cent of payments by the 30 June deadline. The delay to starting payments increases the risk that this deadline will not be met. Governance board papers highlight the risk that delays to delivering inspections software will reduce the ability to pay inspection cases by the June deadline. There is very little leeway if the software release is not ready or fully functioning as forecast in mid-May. [assessment of

risk to June 2017 deadline to be updated once more information on payment progress and release progress is available]

Recent audit findings mean there is a risk of significant financial penalties

56. Our May 2016 reported highlighted the risk that the Scottish Government might face financial penalties for not meeting EC regulations. Financial penalties can be imposed for failing to meet deadlines or for weaknesses in the controlling and administering EU funds.

57. Audit Scotland audits the European Agricultural Fund Accounts (EAFA) in Scotland as part of the UK consortium led by the National Audit Office (NAO). These accounts are for both pillar 1 and pillar 2 payments. We provide an opinion on these accounts covering:

- the completeness, accuracy and veracity of the annual accounts
- the effectiveness of the internal control system
- the legality and regularity of the expenditure declared to the funds.

58. We provide accreditation scores for the Paying Agency's (ARE directorate) management of both funds. This provides the EC with an assessment of how securely a paying agency is managing and administering EU funds. We submit a report to the EC (through the NAO) every February. It is then up to the EC to decide if any action, for example in the form of financial penalties is required. Financial penalties are subject to negotiation and the final amount may differ from the one originally notified.

59. Our audit of the 2015/16 EAFA was affected by delays in the system information being provided, and a proper audit trail not being available. We concluded that the accounts themselves were an accurate reflection of the amounts paid. However, we identified a number of issues in relation to how the system was operating and weaknesses in the controls:

- The incremental nature of developing and implementing the rural payments system has impacted on the quality of the audit trail during 2016. The paying agency's focus on delivering core compliance functionality has meant that the audit trail is not always easy to see or access.
- Delays in delivering the new system impacted significantly on the paying agency's planned programme to make BPS payments to farmers, crofters and rural businesses.
- The paying agency relied on inefficient processes to draw together the accounting information it needed to submit to the EC. This placed a significant burden on the paying agency's finance function, increased the risk of error and omission and delayed the process for preparing accounts.

- We were unable to conclude on the accuracy and reliability of the control statistics required by the EC. It was not possible to determine if the information extracted from the system was correct. [1]

60. Using manual workarounds for some processes was identified as a weakness in controls. Manual workarounds are sometimes necessary to solve an issue with the system that cannot be quickly sorted. They should be used only when there is no other option and provided effective checks and controls are built in.

61. The audit concluded that the system was only working partially and there were deficiencies. Risks were addressed to a limited extent by controls but these were not always working as intended. This was a weaker assessment than in previous years. At the time of reporting the EC had not decided what action it would take against the Scottish Government.

62. These weaknesses mean that the risk of significant financial penalties relating to the SAF 15 payments is increased. It also increases the risk of financial penalties for future years unless prompt corrective action is taken to improve controls.

63. The funds are also subject to audit directly from EC auditors and the European Court of Auditors who audit the EC accounts. They focus on how specific CAP schemes are implemented and how controls are applied. The Scottish Government reported that 12 such audits on various schemes had taken place between October 2014 and March 2017. To date the Scottish Government has been notified of potential penalties of £x million in relation to these audits. The amounts are yet to be agreed and finalised.

The Scottish Government has not assessed the risk of financial penalties in detail

64. Our May 2016 report recommended that the Scottish Government complete a detailed assessment of the risk of disallowance based on delivering the minimum scope. This would help decisions on prioritising activity and allow the Scottish Government to understand the level of accumulated risk across all schemes and how best to mitigate this risk. The directorate considers the risk of disallowance in determining immediate priorities. This is at a high level with no detailed analysis about accumulated risk across all schemes and linking risks to decisions about future system functionality.

65. The risk of financial penalties as a result of audit findings and missed deadlines has been included as a set item on the CAP Strategy and Delivery Board agenda since March 2016. The Scottish Government has assessed the risk of disallowance due to missed deadlines as £5 million for 2015 (paragraph 54), but has not updated its risk arising from weaknesses in controls. In our May 2016 report we highlighted that

[1] Control statistics provide assurance to the EC and the directorate (the paying agency) that the control system in place to ensure the legality and regularity of expenditure has, as a whole, worked as intended.

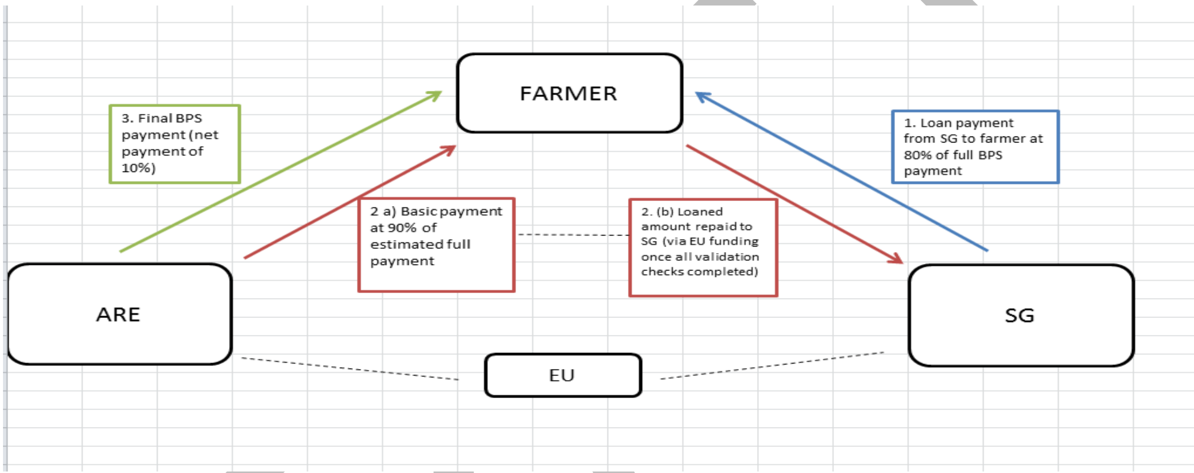
financial penalties could be in a range of between £40 million and £125 million. Our updated estimate is up to £60 million.

The loan schemes put the Scottish Government budget under pressure

66. As set out in paragraph 26, the loan schemes introduced by the Scottish Government were funded from its financial transactions budget, which was £368 million in 2016/17. The Scottish Government recovers the loans once the farmer's claim has been validated and checked by the system and money reimbursed by the EU (Exhibit 7, page 23).

Exhibit 7 2016 BPS payments

This exhibit will show how the 2016 BPS loans have been paid and recovered.



Source: Audit Scotland

67. The Scottish Government made two loans schemes (for 2015 and 2016 BPS loans) from the 2016/17 financial transactions budget, putting this budget under additional pressure. In total, £370 million of loan payments were made in 2016/17 with £240 million recovered by 31 March 2017. Once 2015 BPS loans were recovered the Scottish Government used this money to make the 2016 loan payments, supplemented by additional budget identified from underspends in other areas. The 2016 LFASS loan scheme is being funded from the 2017/18 financial transactions budget.

68. There is a risk that the overall 2016/17 Scottish Government budget for capital spending is overspent or that there is less capital budget to carry forward into the 2017/18 Scottish budget than planned. The 2016/17 Scottish Government consolidated accounts are in the process of being prepared for audit. We will report on the Scottish Government's final position in our annual report on the audit of the Scottish Government consolidated accounts in the autumn.

69. There is also an opportunity cost associated with providing these loans. The money was not originally intended to be loaned out to farmers, crofters and rural businesses, but to other schemes to stimulate the wider economy. The majority of the budget sits within

the Communities, Social Security and Equalities portfolio. By lending this money to farmers throughout the year the Scottish Government has temporarily lost the opportunity to use the money for its original purpose, for example for Infrastructure loans schemes to build affordable homes, and 'Help to buy' schemes.

Using manual workarounds for calculating loans caused errors and duplicate payments

70. We reported in May 2016 that manual workarounds had to be put in place to complete inspections, and also to make loan payments. The Director General Economy and the Permanent Secretary provided evidence to the PAPLS committee that errors had been made in calculating some loan payments due to an error in a spreadsheet. In total errors totalling £1.2 million were made, including duplicate payments, of which £xx has been recovered.

71. Programme documents also indicate that the loan schemes slowed the pace of programme delivery due to staff having to prioritise the administration of loans over other activities.

A number of benefits have been reduced or delayed

72. Our May 2016 report summarised the Scottish Government's risk assessment of delivering planned benefits as at February 2016. This showed that a number of benefits could be delayed or would not be fully delivered due to delays and the need to reduce the scope of the programme.

73. The programme team last reassessed anticipated benefits in December 2016 and as a result changes were made to when some benefits would be realised. For example, the anticipated financial benefit from reducing the level of spend on existing IT systems and contracts was reduced. £2.9 million of expected benefits in 2016/17 and £3.4 million in 2017/18 were reassessed as not being achievable due to the contracts for legacy systems being extended (paragraph 46). Over the course of the benefits realisation plan, up to 2022, the ARE directorate now only expect to achieve an overall saving of £16 million for this benefit, reduced from £22 million.

74. The value to be realised from restructuring the Field Inspection System (FIS) team has also been revised. This has been reassessed partly due to the added complexity of the mapping requirements under the new CAP and partly due to delays in implementing the new land mapping system (LPIS).The overall saving for this benefit is now expected to be £2.6 million, a reduction of £5.1 million.

75. The Scottish Government forecast that the largest programme benefit would be avoiding financial penalties for pillar 1 and pillar 2 schemes in each year of the programme. The value of this benefit has not been re-assessed, but the ARE directorate is in the process of updating it. The programme was also forecast to reduce the cost of any work required to respond to audit recommendations. This was based on

the estimated cost of setting up task forces to deal with issues. This benefit is also being reassessed.

76. Due to changes to the management team within ARE between September 2016 and March 2017, two of the benefits had not been reassigned to new owners at the point of the December 2016 review. It is important that all benefits have owners so that they can be monitored and there is accountability. It is also important for benefits to be reviewed throughout a programme lifecycle and to identify any new benefits or disbenefits. The programme ended on 31 March 2017. It remains important to:

- continue to monitor progress against the original programme business case benefits, alongside the wider ARE business benefits
- recognise any interdependencies between these and the overall investment in the system.

77. The directorate is planning to review the value of the system and what additional benefits it could provide that were not originally anticipated. For example, how the Scottish Government could make best use of the customer and land mapping data it contains.

The programme has not achieved the anticipated value for money

78. We concluded in our May 2016 report that the programme will not deliver the full value of the anticipated benefits, will only deliver a minimum scope, and will cost substantially more than originally estimated. The system also requires significant further investment to ensure that it can continue to make further payments. This investment will not deliver any new or additional benefits. To date, the programme has not delivered value for money.

Part 2: Leadership and governance

Key Messages

1. **There have been significant changes to leadership and to the directorate organisational structure since the summer of 2016. This brought renewed effort to stabilise the programme and respond to the risks. Management time is still being taken up by responding to short-term risks, but the changes the new management team are making are intended to improve longer-term strategic thinking and capacity. These changes are still being put in place and will need time to embed.**
2. **The governance structure has changed, with improvements made to the recording and transparency of decision-making. The new structure should also help to provide stability through the end of the programme and its integration into the business. These arrangements are new and the directorate plan to keep them under review to ensure they meet its changing needs.**
3. **The quality of the system code has improved but remains an issue. Programme planning is still optimistic and the pressure to meet the timetable has squeezed development and testing time.**
4. **Transferring knowledge from contractors to staff within the business is a significant challenge. The programme has identified 20 roles and areas where they are heavily reliant on contractor staff. The pace of knowledge transfer needs to increase and there is a risk that the focus on payments will not allow enough time for it to take place.**

A new leadership team is in place

79. There have been significant changes to the leadership team and structure within ARE and to the Futures programme team in the past year. Many key people in the programme team, such as the former programme director, and head of the Information Services Division left over the summer of 2016 as their contracts came to an end.

80. A new Director of ARE started in September 2016. Since then the leadership structure has been reviewed, and during March and April 2017 areas of responsibility were agreed and finalised. All these changes have come during a very busy period for the programme and as it moves into the business delivery stage.

81. This presents both opportunities and risks. The programme is coming to an end but delivery will continue under a new structure and new leadership. This provides an opportunity to draw a line under what has gone before and ensure that the new business delivery model is fit for purpose and meets overall objectives of the directorate and not just the Futures programme. It also creates additional capacity at senior level to creating the space and time within the leadership team to do longer-term strategic planning. This is a priority, as previously the focus was on short-term actions to deal with issues as they arose.

82. The risks are that this is happening at a time when the programme is trying to:

- deliver payments to farmers, crofters and rural businesses
- recover loans
- process SAF 2017 claims
- continue to develop and test the rural payments system.

83. A change of personnel and structure could take focus away from delivering the system, and it can also be unsettling for staff. It will be important that the new structures and reporting lines are clearly communicated to staff.

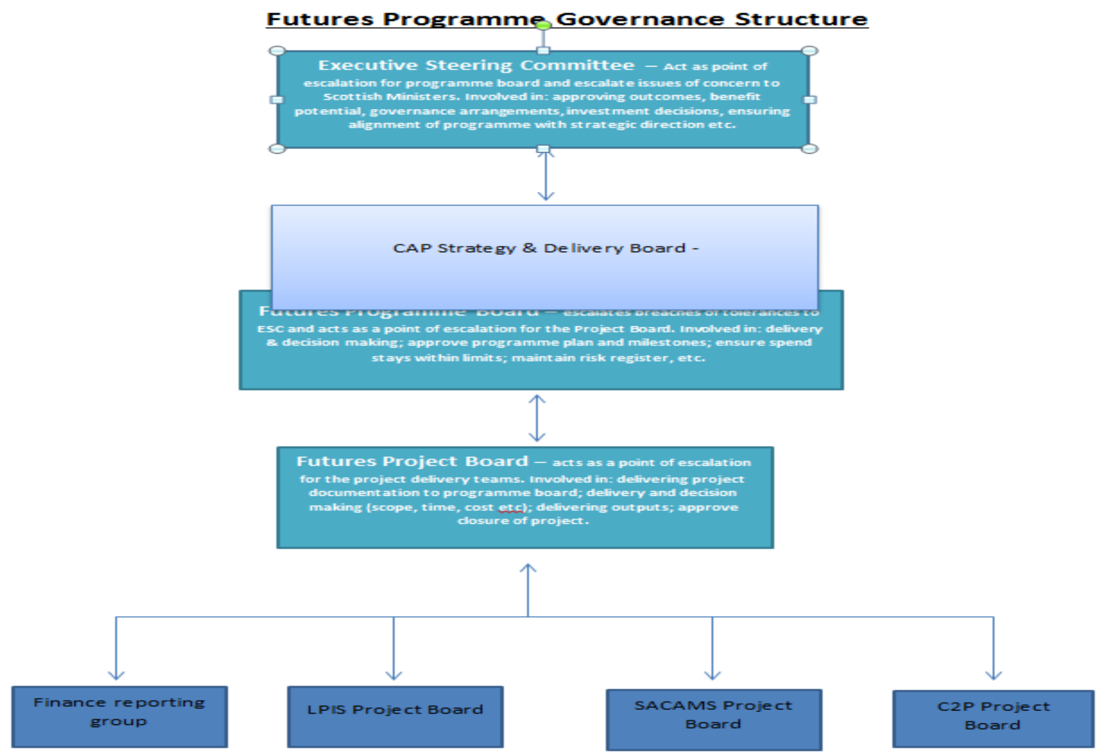
Governance structures have been revised to transfer programme activity into the directorate

84. We reported in May 2016 that programme governance had not been operating effectively with strategic decisions taking too long and significant decisions being made outwith programme governance structures. It was also not clear when a problem had been referred, or escalated, from one level of governance, for example operational level, to a higher one, such as the programme board.

85. The programme team reviewed governance arrangements over the summer 2016 and improved procedures for logging and acting on decisions. It is now much clearer where and when decisions have been made. Issues that have been escalated are also clearly documented.

86. The new leadership team revised governance structures in November 2016 to take account of the programme coming to an end and responsibility for the delivering CAP and the rural payments system moving to into the wider ARE directorate. Exhibit 8 sets out the new governance structures and escalation routes.

Exhibit 8 Agriculture and Rural Economy governance structure for delivering CAP (TO BE FURTHER DEVELOPED)



**CAP strategy and delivery board has replaced the Futures Programme Board*

Source: Audit Scotland

87. The Executive Steering Committee (ESC) met for the first time in January 2016. It has a strategic role in ensuring the programme integrates into the needs and priorities of the wider directorate, and that outcomes and benefits are delivered. The Futures programme board has been replaced by the CAP Strategy and Delivery Board. Both these boards have appointed independent non executive directors with experience of major IT projects.

88. The ARE directorate is keeping the new structure under review. It is considering whether other governance boards might be required underneath the ESC to allow it to take more strategic decisions rather than decisions about detailed tasks and short-term actions. Ensuring that members of each committee and board are clear about their roles and responsibilities, particularly as the programme ends and delivery moves into the business, will be important.

Quality has improved but remains an issue

89. The quality of the software being developed continued to be an issue throughout 2016. There were a number of reasons for this. For example, the period of time for testing has often been shortened due to delays in developing the software and the pressure to release it. Another reason is the lack of fully integrated teams, with software developers often working in isolation from the people using the system (in area offices), scheme teams, and service delivery. Product Owners (POs) have a key role to play in this by interacting with software developers, people using the system and other stakeholders ensuring the requirements are clear and that user needs are met. The programme has not had enough POs throughout and a shortage remains.

90. Programme documents and the independent technical assurance review in 2017 (paragraph 47) indicate that quality is improving but remains an issue. The new leadership team is taking action to improve quality and monitoring. For example it is working with CGI to improve how to track and analyse issues and defects to better understand their causes. It has implemented a series of daily and weekly meetings involving representatives from different user and business groups, such as area offices, service delivery and IT, to ensure issues are identified and dealt with quickly. In addition, a full-time testing manager has been employed to oversee testing.

91. These are welcome changes but come late in the process. The new governance and leadership structures have a vital role in ensuring quality improves. It will be important to keep reviewing the processes for monitoring and testing quality until a consistent level of performance is achieved.

Managing the transition of the programme and knowledge transfer will be challenging

92. Finding the space and time for people within the existing programme team and the wider business to smoothly move delivery into the business over the busy summer period will be challenging. As we have set out, during this period three key systems remain to be delivered, alongside continuing to develop the system and make payments, process claims and recover loans. It will be crucial to set aside adequate time to allow people who know the system in detail and who may leave, to share and document their knowledge.

93. A significant number of contractors are involved in developing the systems and managing the programme (Exhibit 6, page 15), including some leadership roles. The ARE directorate reviewed all contractors in January and February 2017 to identify any potential 'single points of failure'. This means identifying people with valuable knowledge of the systems and business who, if they left, could cause delivery to fail because the people who remain do not have that knowledge. This review identified around 20 contractors with a pivotal role in delivering the programme.

94. The ARE directorate extended contracts where appropriate and put mechanisms, such as job shadowing, in place to help the transfer of knowledge from the contractors to Scottish Government staff. This was included in the ARE directorate transition plan and roadmap. Identifying the right people with the right skills to take on new roles and allowing them time to learn is vital to keep the service running in the longer-term service. There is a risk programme roles are added on to the existing roles of ARE directorate staff and that they will not have time or ability to do this. The risk of lost knowledge is increased due to the lack of system documentation highlighted at paragraph 48.

There is a continuing risk of staff burn-out

95. Staff from across the business have shown a great level of commitment in challenging circumstances. The remainder of the programme continues to be delivered at a fast pace with continuous deadlines to meet and backlogs of work to be done. Staff have been under enormous pressure for a number of years, and we do not see this changing in the near future. The leadership team recognises this and, as we set out earlier, is reviewing structures and processes. Members of the team have regularly visited area offices to try and improve staff engagement and morale. The staff survey results for the directorate in 2016 showed an improved engagement score from previous years. Good communication with staff in all areas of the business will be particularly important during this transitional period and beyond.

Appendix 1

Audit methodology

We reviewed a range of information during our audit, including the following:

- Papers from the ARE Futures governance boards, and other relevant management documentation (such as business cases and programme plans).
- Gateway review reports prepared by the Scottish Government's Programme and Project Management Centre of Expertise.
- Papers from the Scottish Parliament's Public Audit and Post-Legislative Scrutiny Committee and the Rural Economy and Connectivity Committee.
- Papers from the Scottish Government Audit and Assurance Committee.
- Audit working papers and findings from the Audit Scotland certification body audit.

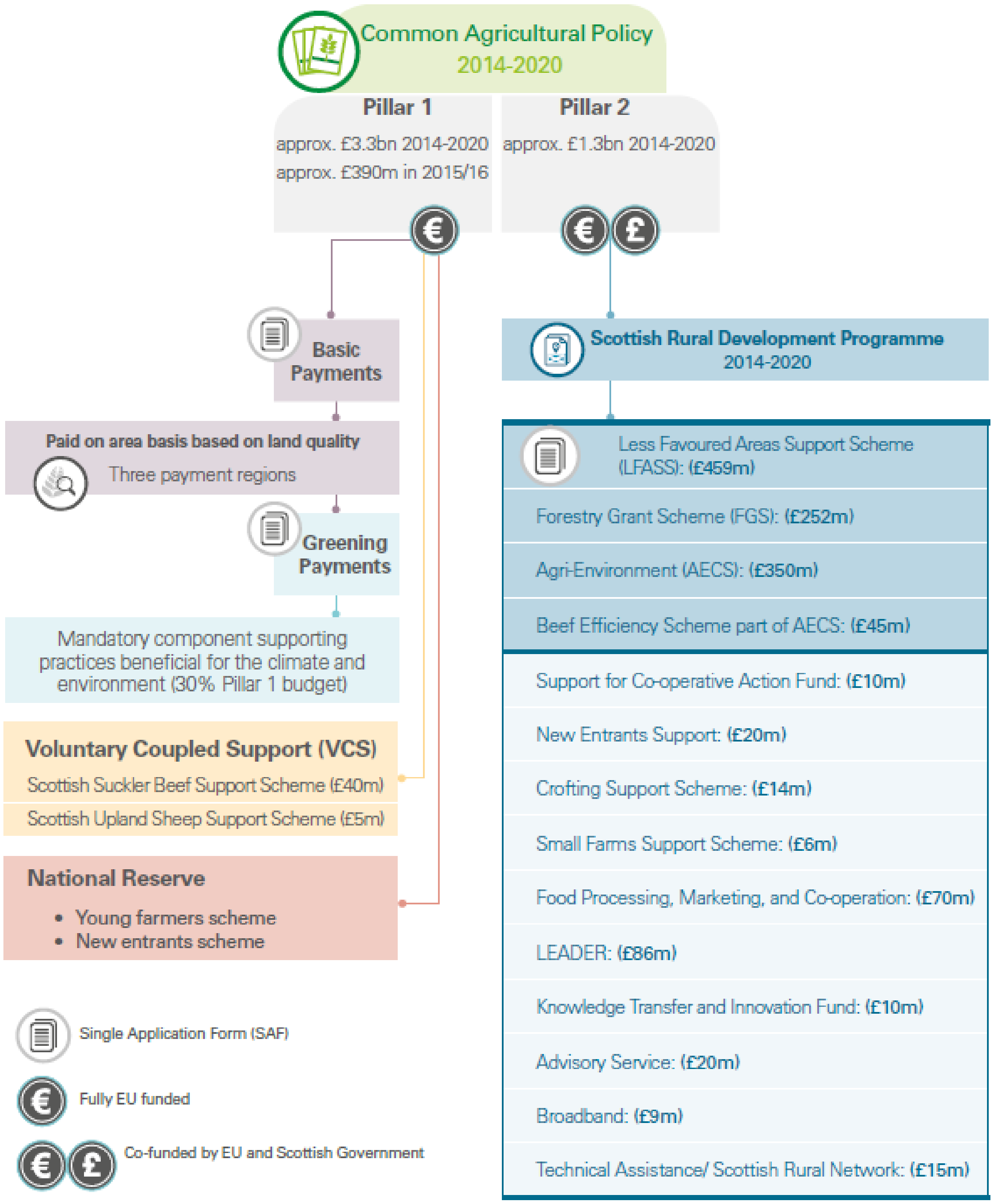
We spoke to representatives from:

- **Scottish Government**
- **Futures governance boards**
- **CGI.**

Appendix 2

The Common Agricultural Policy in Scotland

Exhibit 2
The Common Agricultural Policy in Scotland
The Scottish Government distributes European Union CAP funding under two pillars.



Source: Audit Scotland

Appendix 3

May 2016 Recommendation	June 2017 Assessment	
Complete a detailed assessment of the risk of financial penalties for all remaining elements of programme scope, to enable informed decisions on prioritisation if the remaining budget cannot cover all the elements required for CAP compliance	Not complete. Work in progress.	See paragraphs 64 to 65 Further recommendation at page 5
Ensure there are appropriate governance arrangements for all decisions made concerning the programme and payments to farmers	Complete.	See paragraphs 84 to 88
Develop a clear plan for the transfer of knowledge and expertise from the programme staff to staff in the business	Not complete. Knowledge transfer still significant risk.	See paragraphs 92 to 94 Further recommendation at page 5
Develop and test a disaster recovery solution covering the whole IT system	Not complete.	See paragraphs 50 to 52 Further recommendation at page 5

From: Jonathan Pryce, Director AFRC
Gordon Wales, Director of Financial Management

Cabinet Secretary for Rural Economy and Connectivity
Cabinet Secretary for Finance and the Constitution

Common Agricultural Policy Basic Payment Scheme 2016 – Options for Nationally Funded Loans

Purpose

1. To provide an update on the work being done by RPID and Finance officials to scope out the operation of a potential nationally funded loan scheme for 2016. This could provide certainty on the timetable for paying farmers the majority of their 2016 claim later this year.

Priority

2. Routine. Work on developing the parameters of a scheme continues. And we know that the availability of funding for CAP loans is not certain at this stage and needs to be considered alongside the development of a Government-wide economic stimulus package that is currently the subject of separate advice to the First Minister.

3. Subject to joint Ministerial consent over the affordability and financial risks, the intention would be to take the proposal to Cabinet during August to determine whether Mr Ewing could announce it in his Parliamentary statement planned for week commencing 12 Sept.

Background

4. In response to delays in processing 2015 CAP claims in early 2016, we introduced a series of nationally-funded loan schemes to alleviate the impact on the cash flow of farms, crofts and other rural businesses. Details are in **Annex A**. National Basic Payment Scheme (BPS) loans were paid out to over 5,000 claimants, totalling over £90m. These loans were operated on an opt-out basis, as it was decided that the emergency nature of the exercise and need for speed outweighed the financial risks. To date around 84% of the money loaned has been recovered from the farmers concerned (by deducting it from their CAP BPS and Greening payments when they were subsequently made).

Proposals for a 2016 Loan Scheme

5. Work is on-going to make improvements to the Futures IT system and to the procedures for processing 2016 BPS and Greening payments. However the likely timescale for 2016 payments will still be later than farmers' expectations, and later than we would expect to achieve once the new CAP is fully bedded down. This is because of:

- the necessary extension of the 2016 application deadline by a month, which delayed the start of initial work on the claims;

- our ability to complete the fieldwork on land inspections, which under the new CAP must be done before any payments can be made. Operational planning will aim to have the fieldwork completed in time for this not to delay the start of payments, but this will be challenging as the added complexity of the new CAP requires more elements to be inspected;
- and the need for further IT functionality to be delivered, the timing of which will not permit the processing of claims right through to payment until around the turn of the calendar year at the earliest.

6. This last point, the timing of the full IT functionality, is most likely to be determining factor. The IT delivery plan is currently under review, but the most recently baselined plan with no contingency time in it would not permit payments to start until the turn of the year – which means a more realistic plan, including contingency, is likely to show payments starting in mid-January at the earliest. At that time, we would be able to pay cases which do not need intervention by area office staff, which accounted for c.19% of claimants in BPS 2015 (but could be higher this year). Thereafter it is very difficult to predict this far in advance the likely speed of claim processing. Detailed estimation which was attempted last year was overtaken as IT problems quickly nullified the assumptions used in the estimates.

7. For the 2015 BPS payments it has taken around 6 months to get the vast majority of claims paid. Even under the old CAP, when systems were running smoothly, processing of all claims took 2-3 months. Taking the latter as the benchmark, if processing cannot start seriously until January then even the very best case scenario would not complete processing (for all except a ‘tail’ of the most complex cases) until end-March. Although we expect processing to run considerably more smoothly for 2016 payments than for 2015, due to all the improvements that have been made and lessons learned, it is not safe to assume that this best case scenario is achievable.

8. We are working hard with CGI to advance these timeframes and improve our collective delivery confidence. CGI are making progress, but the level of certainty required is likely to push the delivery estimates, once contingency is included, further out, which may have an impact on when we can start processing in earnest.

9. Against this background **Mr Ewing asked for options to be explored that might deliver cash flow to rural Scotland sooner than via the ordinary 2016 BPS and Greening payments**, taking account of what we know is planned in other Member States or other parts of the UK. Details are set out in **Annex B,** but in the only viable option that would guarantee payments in December is to use nationally-funded loans as we did in 2015. The rest of this paper analyses the loans option.

Policy choices for a potential 2016 National BPS loan scheme

10. **Annex C** sets out a series of design options for any loan scheme in 2016, with recommendations.

11. Were Ministers minded to implement a loan scheme**, we would recommend the following features:**

- **An opt-in approach should be adopted for loans in 2016, because the urgency considerations which justified the riskier opt-out approach for 2015 loans do not apply, and to rule out unwanted loans. This would address one of the fundamental financial risks associated with the 2015 loan scheme.**

- **Loans should be offered in euros as well as sterling (same as last year), to facilitate recovery of loans from those who have opted to receive their CAP payments in euros. Although this is complex and administratively cumbersome, it has been proven to be deliverable and would also demonstrate that we are responding to existing payment preferences.**

- **Subject to budget availability, loans should be capped at no more than €250,000 to minimise the risk of any individual exceeding the rolling state aid *de minimis* limit.**

- **We should plan to pay loans by the end of November, which is before the opening of the normal payment window on 1 December. There remain genuine policy choices, for further discussion, as to whether payments should be made any earlier than that.**

- **Loans should not exceed 80% of each farmer's expected 2016 BPS/Greening payment, and the percentage should be determined by budgetary considerations.**

Potential Budgetary Requirements 2016-17

12. Annexes D and E set out an analysis of the potential budgetary requirements for a loan scheme.

13. CAP loans have been funded from the SG's Financial Transactions budget. At the time of writing, £53m in the 2016/17 Financial Transactions budget (which was rolled over from 2015/16 along with some projected underspend elsewhere) could be available to meet the net effect of a loan scheme (that is the difference between what is paid out and what can be recovered by 31 March). However, there is currently no capacity to carry forward any underspend here due to a change in HM Treasury rules so the situation needs to be engineered very carefully indeed.. Annex E shows that with a budget of £53m in the 2016/17 financial year, if loans were made at 80% of each farmer's expected payment, around 70% of loans would need to be recovered by 31 March in order to respect that budget provision.

14. Based on the experience of previous years, it might be possible later in the financial year to make available further amounts in addition to that £53m, through active management of the FT budget. On the other hand, whilst the £53m is currently unallocated and available, the First Minister is actively looking at a wider economic stimulus package which could require all of that money and result in a smaller amount being available for CAP loans.

15. A further important point is that, because of the rules on rollover of FT budgets from 2016/17, it will be important that the end-year outturn aligns closely with the budgetary planning. In other words, whatever level of budget cover is eventually decided, it will be important neither to overshoot nor undershoot significantly. This will require progress with payments not to slip below whatever rate is required; but conversely, in the event that payments go faster than planned and loans are recovered more quickly, it could be necessary to deliberately slow down recoveries (and therefore CAP payments) in order to avoid under-utilisation of the 2016/17 FT budget.

16. Apart from the speed of processing, the other variable that can change the budgetary requirements is of course the percentage size of the loan.

17. It is recommended that Ministers discuss with officials the detailed options for budgetary provision, percentage size of loan, and estimated speed of processing of CAP claims and recovery of loans, in order to find an effective, affordable and deliverable proposition for consideration by Cabinet.

LFASS

18. This analysis does not include detail on the potential need for LFASS loans in 2017. If they were to be needed, they could be timed to fall into the 2017-18 financial year and therefore we could have very high confidence around recovering them before the end of that financial year. We shall return to this question when we have more refined estimates on the delivery of the BPS payments and its conseqences on the timetable for next year's LFASS payments.

Process and Resources

19. A small temporary team was put together at short notice for the 2015 loan schemes. If an opt-in approach is adopted for 2016, and because the loan population will be the full 18,500 claimants rather than a sub-set, the administrative work will be considerably greater than for 2015. We estimate that a slightly larger temporary team will be needed for 2016 loans, in addition to work on the loans being absorbed by existing teams in RPID, AFRC Finance and Finance Directorate.

Conclusion

20. Ministers are invited to consider the recommendations above on the design of a 2016 loan scheme, and to meet with officials to discuss the budgetary issues, with a view to reaching an agreed position which can then be put to Cabinet.

Jonathan Pryce
Gordon Wales
5 August 2016

Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Minister for Transport and the Islands			X		

DG Economy DG Finance Paul Smart Scott Mackay Alistair Lindsay Trudi Sharp Stephen Sandham Alan Fraser Brian Endicott Roy McLachlan Ian Davidson Brian Stevenson Graeme Hutton Audrey Parfinowska Iain Dewar Andy Bracewell Eleanor Stratford Hannah Boland Vikki Pescodd Catherine Brown Kate Higgins

Annex A

Nationally funded loans used by SG for the 2015 CAP scheme year

For the 2015 CAP scheme year, in response to delays in progressing 2015 Basic Payment Scheme (BPS) and Greening payments and other payments such as the Less Favoured Areas Support Scheme, SG introduced three nationally funded loan schemes in the spring of 2016. The delays were impacting seriously on cash flow for individual farming businesses and for the wider rural economy.

- In February, an opt-in BPS loan scheme for extreme hardship cases (defined as those refused lending by their bank) was launched. Only a handful of such loans were paid and this scheme was superseded by the main National BPS scheme, see below.

- In March, in recognition of a significant delay to payments under LFASS (which would normally have begun that month but will now be made in approx. late August), a National LFASS loan scheme was run which lent c.£54m to c.11,500 claimants. This was paid from the 2015/16 SG budget and will be reclaimed in 2016/17 when the LFASS payments are made in a few weeks' time.

- The First Minister announced on 8 March 2016 that Scottish Government was making available up to £200 million of national funds for a BPS loan scheme, to provide cash support while remaining 2015 BPS and Greening payments were being processed. National BPS loans were offered to all farmers confirmed as eligible but who had not received a first instalment BPS/Greening payment by the end of March. The loans were paid from 1 April so that they could be both paid and reclaimed in the 2016/17 financial year. To date over 5,200 loans have been made, for 80% of each individual applicant's anticipated BPS and Greening payments. The total paid out to date is just over £92 million. After the initial exercise in April, we continue to offer these loans to new cases on a case by case basis, but the number of new loans is now extremely small.

- **So far c.84% of the amount loaned has been offset (recovered) as CAP payments have progressed.**

The National LFASS and BPS schemes were run on an opt-out basis, for speed, though it was acknowledged that this entailed a degree of financial risk due to the absence of an agreement signed by the farmer confirming acceptance of the terms and conditions. The hardship BPS loans and the main National BPS loans are being recovered by deducting the loan from the farmer's CAP 2015 BPS and Greening payment when that is made. National LFASS loans will be recovered by deduction from 2015 LFASS payments when they are made in a few weeks time.

ANNEX B

Countries expecting to make early payments

1. There are two approaches that can be taken to make payments ahead of the normal payment window in December: national funded loans that provide cashflow to farmers before the full checks and audit regime required by the CAP have been completed; and advance payments that can only be made after those checks have been fully completed.

Nationally funded loans

2. **Nationally funded loans do not count as CAP payments and therefore can be made before claims have been fully full checked and processed.** They must comply with EU rules on state aid, which was achieved relatively easily in 2015 when we used loans from March onwards for claimants whose CAP payments were being delayed by IT and processing difficulties.

3. **France** used nationally funded loans from October 2015 and plan to do so again in 2016. Our understanding is that they will do this on an opt-in basis. Their timetable is:

- From 15 October 2016, loans of 90% of the farmer's anticipated Basic Payment, Greening, Young Farmer Payment, Redistributive Payment (not used in Scotland) and LFA support. Total amount: € 7.2 billion.
- By the end of December 2016, on the spot inspections completed.
- 2017 Q1, payment of CAP payments and recovery of loans.

CAP advance payments

4. Advance payments can only be made if all checks and processing have already been completed. Ireland and Northern Ireland have announced that they will make use of this provision in the CAP regulations that allows partial 'advance payments' (up to 70%) from 16 October to the opening of the normal payment window on 1 December. Both countries then expect to pay over 90% of their main payments in December

5. Both Ireland and Northern Ireland chose simpler policy designs than Scotland, using only a single payment region and NI had already begun the transition to area-based payments after the 2003 reforms. NI has also made use of satellite imagery for a number of years, which significantly speeds up the time-critical inspections, an option that we will be considering for future years but is not available for 2016.

6. Our more complex policy choices mean advance payments are not an option for Scotland for 2016. We could not complete the on the spot inspections in time in any case, but we will not have the IT functionality to complete administrative checks until well after the advance payment period has finished.

7. We understand that **England** and **Wales** have no plans for advance payments (or loans) for 2016 but expect to make around 90% of payments in December.

Annex C

Design considerations for a loan scheme in 2016

Opt-out or Opt-in process

1. The 2015 National BPS scheme adopted an opt-out process i.e. eligible applicants who had not received a first instalment CAP payment were made an offer in writing subject to a set of conditions. They were given the opportunity to opt out within a period of seven days from the date of the offer letter. If no opt-out was received then payment of the amount offered was made. Just over 2% opted out, out of over 5,700 offers issued. The offer process was relatively easily mobilised and simple to administer.

2. However the opt-out process was not without risks, particularly that there was no definitive signed commitment by the recipient to the terms and conditions of the loan, leading to a higher risk of non-repayment of the loan compared with an opt-in approach. As this was very much an emergency situation, Ministers concluded that this risk was tolerable in the circumstances. The process, and the terms and conditions of the loans, were designed to comply with EU state aid rules.

3. For 2016 the amount of money subject to the risk of non-repayment would be considerably greater because the potential loan population would be the full claimant population of around 18,500 applicants. This financial risk could be mitigated by a planned opt-in approach in which farmers and crofters would be invited to request a loan, based on a percentage of the value of entitlements that they hold. This would involve sending a short application form including a set of terms and conditions to all the potentially eligible population (c.18,500). Loans would only be made to those who applied and who met the eligibility checks.

4. A further important risk factor with an opt-out process is the possibility of some claimants being given a loan, and therefore a debt, that they did want. This could happen if did not receive the ‘opt out’ letter, were unwell or on holiday at the time. Debt can be a very sensitive issue for some and this risk would be avoided through an opt-in, application driven, scheme.

5. In light of the significantly higher population, and given that the risks associated with an opt-out approach cannot this year be justified by emergency circumstances, it is recommended that an opt-in approach is used.

Payment in Sterling only or Sterling and Euros

6. Under EU rules, farmers can opt to receive their Basic Payment (and other Pillar 1 payments) in sterling or in euros. For 2015 the c.15% who opted for euros expressed a wish also to receive their nationally-funded loan in euros. This is because in most cases farmers who opt for euros enter into forward contracts with their bank to sell the euros for sterling, and receiving a loan in sterling, despite providing cash flow, would not allow them to fulfil the exchange contract.

7. Working closely with Finance Directorate colleagues, we were able to accommodate both currencies. This has simplified the process of recovery of the loan when the CAP payments were finally processed through the system, as we have been able to claw back euro loans against euro payments. However it did require Finance Directorate to manage the timing of converting the euros recovered back into sterling in such a way that SG did not make any loss on the exchange rate.

8. It is essential to have an effective recovery mechanism for the loans, and it is not really viable to attempt to claw back a 2016 National BPS loan made in sterling from a CAP 2016 BPS payment made in euros.

9. For a 2016 BPS loan scheme, in order to ensure effective recovery of loans, it is recommended that both sterling and euro payments be made again, according to each claimant's choice for their CAP payments. The mechanics of doing so will once again require careful planning and liaison between AFRC and Central Finance.

<u>State Aid limits/Capping of loans</u>

10. The EU regulation on agricultural *de minimis* state aid allows limited amounts of aid to be given for activities related to the production of agricultural products. The maximum that can be given to any beneficiary is €15,000 over any consecutive three year fiscal period.

11. In developing the 2015 National BPS loans we clarified that it was only the notional interest on the amount of the loan that counted towards the *de minimis* state aid limit. Farmers would not be charged interest on the loans, but a notional amount of interest would be calculated and logged as a state aid benefit from which the farmer would be deemed by the EU to have benefited. Arrangements to charge interest in certain circumstances were included in the terms and conditions, for example if SG were unable to recover the loan for some reason and the farmer refused to repay it, but to date this situation has not arisen and no farmer has been charged interest by SG.

12. Despite there already being a number of different national schemes (e.g. Weather Aid, Bull Hire Scheme) that count against the €15,000 limit, our judgement was that the introduction of the loan scheme would not significantly increase the risk of any individual farmer/crofter breaching the limit, especially if the maximum amount of loan was capped. In the unlikely event of an individual breaching the limit, SG would be required to recover the excess amount.

13. A cap of €250,000 was therefore set for the 2015 National BPS loans. A loan of c.€250,000 would result in notional interest equivalent to roughly one year's worth of the three-year limit. Ensuring compliance with state aid rules was the principal justification for the cap, although public perception is also relevant in that it might be hard to defend very large loans to large farming businesses which the public might expect to be better equipped to cope with cash flow fluctuations.

14. It is recommended that a cap on individual payments of no more than €250,000 is applied to a 2016 loan scheme.

Timing of 2016 loans

15. Ministers have asked officials to look at the potential to make loans in October 2016. This would coincide broadly with when we expect Ireland and Northern Ireland to make advance payments, and France to make loan payments.

16. However, there are arguments in favour of a slightly longer timetable. An opt-in procedure will take longer to set up and operate than did the 2015 opt-out scheme. The later the loans are made, the more time we will have had to firm up farmers' eligibility and amounts due (albeit that the major uncertainty of 2015, namely the size of CAP payment to which the farmer would eventually be entitled, is much reduced for 2016 because entitlement values will have been fixed). Also experience suggests that making very early payments could risk setting farmers' expectations for future years.

17. It is recommended that we should not commit to making loan payments in October, but should aim to make them by the end of November. This would still be earlier than the very earliest date on which CAP payments (excluding advance payments) could be made.

Proportion of entitlement value to be lent

18. For the 2015 main BPS and Greening payments, SG adopted a two-payment strategy because in the first year of the new system farmers' total amounts due could not be finalised until virtually all claims had been processed. First instalment payments were paid from late December 2015, at 75% of individuals' expected BPS and 90% of their Greening payments, giving a weighted average in the region of 80% in most cases. This was higher than the published target of at least 70%. Balance payments have been paid from 23 June.

19. For the 2015 National BPS loans, the amount of loan was set at 80% of the estimated BPS and Greening amounts for each farmer, to mirror the size of the first instalment payments. Loans were not offered in cases where the eligibility of the claimant was in serious doubt, though efforts were made to resolve such cases as quickly as possible. It was theoretically possible that, after a loan, the processing of a claim could result in an eventual payment smaller than the amount of the loan, for example due to a large area of land proving to be ineligible. But this has not crystallised into any significant problems so far, as a result of pre-loan checks in a small number of individual cases where the risk was thought to be high.

20. For a 2016 loan there can be a greater degree of confidence in the amounts due to each farmer, because the value of BPS entitlements will have been fixed – although it will still be necessary to check that each claimant has declared sufficient eligible land. For this reason a loan proportion as high as the 80% used for 2015 is likely to be low risk. It would still be unwise to lend 100% of the estimated amount due to each farmer, because of the risk of subsequent processing reducing the amount to be paid such that the CAP payment would not cover the full loan. Given the position taken by SG for 2015, it is unlikely farmers would expect a loan to be higher than 80%.

21. **It is recommended that for 2016 loans the proportion to be lent should not exceed 80%, and should be determined according to the budgetary requirements and availability of funds**.

Annex D

Financial analysis

1. Loans are counted against the SG's financial transactions budget, the overwhelming majority of which has already been allocated for other purposes. In 2015/16, financial transaction budget cover of c.£53m was required for CAP-related loans which would not be recovered till 2016/17, for the hardship loans and national LFASS loans. AFRC already have an unallocated Financial Transaction Budget of £5m for 2016-17.

2. The budgetary cover required for 2016-17 will be dependent on:

a) the amount of loans recovered in 2016/17 which were issued in 2015/16 (ie National LFASS loans of £53.5m). No reallocation of loan recoveries from 2015-16 has been made and the balance associated with repayments would be available to support further loans made in respect of 2016 CAP payments.

b) the net new loans issued in 2016/17 (i.e. new loans issued less amounts recovered by 31 March 2017). This includes both National BPS 2015 loans issued after 1 April 2016, and the proposed National BPS 2016 loans.

3. If National BPS loans were offered for the 2016 scheme at 80% of each individual's anticipated payment value, then this would require new loans of approximately £285m (depending on the exchange rate, because BPS entitlements are fixed in euros and converted as at 30 Sept each year). As loans are only recovered when the EU payment is made, then an assessment is required of the potential amounts that may still be outstanding at 31 March 2017.

4. A sensitivity analysis highlighting a range of possible scenarios is separately attached in Annex E. For example, Financial Transaction budget of £53.6m would be needed for 2016/17 in a scenario where:

- the vast majority (c.95%) of any outstanding 2015 BPS loans and 2015 LFASS loans were recovered by 31 March 2017, which is highly likely, and
- 65% of 2016 BPS/Greening payments were made (and hence 2016 BPS loans recovered) by that date.

5. £39m in FT budget has been carried forward from 2015-16 and at time of writing is available to be deployed along with £14m of projected underspend elsewhere. But this is subject to consideration for economic stimulus elsewhere, and so may not ultimately be available. The balance of the available FTs budget has been fully allocated, largely to Housing programmes. Past experience would suggest that some underspends will arise on the FT programme in the course of the year. Active management of the allocated FT budget position could potentially secure additional budget cover for allocation to fund CAP loans. A decision will need to be taken on the most likely balance of funding required, and a view on relative prioritisation would be required if the scale of the funding requirement here necessitated curtailment of activity in other areas.

6. The FT budget management position is complicated by a tightening of HM Treasury controls over the ability to roll forward any FT allocation unspent in the course of 2016/17. The maximum available under the Budget Exchange Mechanism (BEx) is 1.5% of the available FT budget, which translates to £5.5m. After allowing additional flexibility in relation to FT BEx in 2015/16, HMT are clear that they expect these limits to be applied in 2016/17. **Any underspend over the 1.5% limit would be lost under HMT budgeting rules – this is a significant risk** and Ministers should note that under the tenure of this Administration no spending power has ever been lost to Scotland. Finance will continue to explore the possibility of additional flexibility in respect to the FT BEx limits, but securing that flexibility cannot be guaranteed.

7. This presents difficulty in managing a CAP loan scheme where the scale of repayment could vary significantly in the range of potential scenarios. Any loan scheme must be managed within the limited tolerances set by BEx limits. **Finance would recommend that in signing off a loan scheme Ministers commit to balancing grant payments (and the associated loan repayments) to an essentially fixed target.** This may require payments to be stopped (for a short period over the financial year end) once that target is reached. It is recognised that stopping payments could present presentational difficulties, but could be necessary to prevent any loss of future funding from breaching BEx limits.

8. There are many more potential scenarios than set out in Annex E. As a next step it is suggested that officials should discuss with Ministers how far they would be prepared to go in managing the various factors which affect the budgetary requirement, such as:

- The size of the loan, as a percentage of each farmer's expected payment.
- The level of a cap on loans (though this may not make a large difference to budget requirement as relatively few loans are likely to be affected).
- The timing of the loan payments. As described elsewhere, there are operational reasons for not making loans till November. If loans were paid even later than that, we would potentially be able to take account of which farmers were likely to be paid their CAP payments in the first payment runs, giving a greater degree of certainty over the budget requirements.
- The degree of risk which is tolerable in relation to the certainty with which we can, at this stage, guarantee to meet any given timetable for processing of claims.

Annex E

Scenarios for 2016/17 budgetary requirement

(see separate Excel spreadsheet)

Agriculture and Rural Economy Directorate
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Caroline Gardner
Auditor General for Scotland
Audit Scotland
4th Floor
102 West Port
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EH3 9DN

8 June 2017

Dear Caroline,

CAP IT: UPDATE REPORT

I am writing to follow up our helpful discussion earlier this week.

It was particularly helpful to have the opportunity to describe the significant progress that the Scottish Government has made over the past year on the delivery of CAP payments and the further development of the Rural Payments and Services IT system, and for you to recognise that. You agreed that the balance may not be quite right, particularly in the key messages, and I thought it would be worth restating our key areas of concern.

In doing so, I make clear again that we are not at all complacent about the work that remains underway to return us to a more regular cycle of payments and to drive continuous improvement in the performance and functionality of the RP&S system. However, there are some specific points of concern that I would wish to reiterate.

Value for money – my hope is that the report offers a balanced view on value for money that is not limited solely to the original business case, which was produced before the detailed business and policy requirements of the system were known. We have developed an operational IT system that has made nearly 100% of BPS2015 payments and good progress on BPS2016 payments; SAF 2015, SAF 2016 and SAF 2017 claims have been successfully submitted on-line; and the cost of the system in relation to the payments that it will administer (£4.45 billion) is around 4%. Overall, we have a functioning system that supports the core aim of compliance with CAP regulations. Whilst these are all instances of where significant progress has been made, and we understand from our call yesterday that you accept that is the case, the draft report you have shared with us does not make explicit reference to these in the section marked Progress Update (page 9) or in the overall key messages in the report. The omission from these sections of these instances of significant progress over a range of areas of work does cause us considerable concern.

Disallowance – the May 2016 Audit Scotland report on CAP IT Futures suggested the Scottish Government was facing the risk of disallowance and penalties in the region of £40-125 million, an estimate that you are now considering revising to a figure of up to £60 million. In arriving at a conclusion on this point, I hope that you will reflect the high degree of speculation and uncertainty that surrounds such estimates. All Member States incur disallowance as a matter of course and the Scottish Government has borne relatively low levels of disallowance in recent years. It would be helpful to make clear that any estimates of future disallowance can only ever be considered as sitting within a very wide range of probability, that a figure of £60 million would be at the very high end of that range and that such a figure is considerably lower than the upper end of the range quoted in the previous report.

Costs – the costs of our delivery of a compliant CAP system are set at £178 million and this financial ceiling is being rigidly held to through more robust governance that has been put in place following your previous recommendation. The way this is presented in your report is I think misleading (for example that the £33m is in addition to the £178m, which is not the case).

Loan Recovery – the decision to establish loan schemes for BPS2015, BPS2016, LFASS2015 and LFASS2016 has enabled us to quickly provide cashflow to rural businesses and to support their financial planning. We have at all times managed these schemes without detriment to the Scottish Government's overall budget position and they have not required us to scale back other Government expenditure programmes. I would hope that the report acknowledges the success of these schemes and the fact that they have been delivered in a way that has not incurred costs elsewhere in Government.

As an overall observation, there are also points made in the body of the report about the progress that has been made that are not clearly reflected in the summary messages.

Finally, I have been reflecting on the timing of this work, which has dovetailed with a critical time in our business cycle, both in terms of making payments for the 2016 scheme year and managing SAF applications for the 2017 scheme year. As you know, we suggested that rearranging the audit would have meant that key officials would be more accessible and there would be more information about payment processing to consider. I recognise there will be a range of factors with a bearing on the timing of your work programme and we will always do everything in our power to provide your team with the support and information they need. Nevertheless, I would be grateful if further thought could be given to how the timing of future audits might recognise peak points in our business cycle.

I hope these comments are helpful in illustrating the significant progress we are making, while recognising the challenges still facing us in returning to a normal business cycle, and I look forward to seeing the report in due course.

ELINOR MITCHELL
Director for Agriculture and the Rural Economy
Scottish Government

Clearance comments – follow up and outstanding information

Para number	Query	Scottish Government response	SG contact
Para 8	Disallowance position as at March 2017. Last year we were provided with a paper which included a table setting out the value of disallowance incurred by each nation. **Do you have the equivalent paper or information this year that we can use?**	Paper attached	Andrew Watson
Exhibit 3	Application numbers. I didn't receive the position as at 15 May (on application window cut-off point). The weekly update information supplied on 11th May indicates the figures we have in for SAF 2016 may also be incorrect. On reflection, we think this may be due to difference between the applications received by the deadline and total applications received. We think it would be useful to show the following: • (1)Total applications received by the respective deadlines for SAF 2015, 2016, and 2017. • (2)The number of applications received in total for SAF 2015 and 2016 (including those after the deadline) • (3)% applications received online (of overall total for SAF 2015 and 2016, and of total received by the deadline for SAF 2017) **Can you please provide this information?**	(1) 2015 - 20,724 (window closed 15th June 2015). This figure is calculated from online submitted date 15th June 2015 or before + paper receipted date of 15th of June 2015 or before + no submission method on system but receipt and submission dates of 15th June 2015 or before.** 2016 - 20,292 (window closed 15th June 2016). This figure is calculated from online Submitted date of 15th June 2016 or before + paper Receipted Date of 15th 2016 June or before 2017 - 19,838* (window closed 15th May 2017). This figure is calculated from online Submitted date of 15th	[REDACTED TEXT] via ICE Team

Para number	Query	Scottish Government response	SG contact
		May 2017 or before + paper Receipted Date of 15th 2017 May or before * This number will rise if not all Paper SAFs received by the 15th May 2017 have been system receipted yet ** Three SAFs with no Submission Date have a Received AND Submitted Date of 16th June 2015 or later (2) 2015 - 20,907 2016 - 20,374 * Does not include any Applications that were subsequently cancelled or withdrawn (3) 2015 - Applications received online in 2015 as a percentage of number of applications received in total for SAF 2015 (including those after the deadline) = 64.61% 2016 - Applications received online in 2016 as a percentage of number of applications received in total for SAF 2016 (including those	

Para number	Query	Scottish Government response	SG contact
		after the deadline) = 75.30% 2017 - Applications received online in 2017 as a percentage of total applications received by the SAF 2017 Window Close (15th May 2017) = 78.45%* * This number is subject to change as Paper SAFs received by the 15th May 2017 may not have all been system receipted yet. Does not include any Applications that were subsequently cancelled or withdrawn	
Para 20	You provided information on outstanding 2015 BPS payments. **Can I just clarify that there are now twenty-five payments outstanding with a total value of 131k. Or have I misinterpreted this information?** **I take it the number and value has gone up since your last response due to more applications becoming eligible?**	That is correct. 25 made up as follows: 12 cases outstanding and not yet at ready for payment status. Value is approximately €40K. 13 cases are now at ready for payment status with an approximate value of €91k. The figure of 22 we had supplied to Audit Scotland	Andy Bracewell

Para number	Query	Scottish Government response	SG contact
		previously was only for cases not at ready for payment. It didn't include those at Ready for Payment, (which has now come down to 13). This is why the number and value has gone up.	
Para 21	1,700 LFASS payments are outstanding but **what is the value of these?**	£3.5 million net of loans	Andrew Watson
Exhibit 4	Loans information. We'd like to show at what points advances and recoveries have been made in relation to each loan scheme. We have the loans register for 2016 BPS and LFASS, but we haven't got this for the cashflow loans scheme and 2015 BPS loan scheme. We understand the latter is currently being finalised. **Can you please send us these loans registers? or at least confirm what months advances and recoveries were actually made for these? (and confirmation of the outstanding amount at 31 March 2017 to the nearest £'m)**	We have provided Audit Scotland with the remaining loan register today (ie BPS 2015 loan scheme). The total balances outstanding at 31 March 2017 were £m LFASS 2015 loans 11.0 BPS 2015 loans 1.0 BPS 2016 loans 172.4	[REDACTED TEXT]

Clearance comments – audit trail template

Para number	Query	Scottish Government response	SG contact
		Total 184.4	
Exhibit 6	Contractor numbers. **Can you provide contractor numbers either up to end of March 2017 or end of April 2017 please?** It would also be useful to have this information to compare this to the 25% reduction target.	At the end of March 2017 there was 201 CGI contractors	[REDACTED TEXT]
Exhibit7 (table 1 in draft report)	You supplied updated programme financials **Can you confirm that the balancing figure of £2.1m will be used for defect resolution. Previously, this figure was £0.4m**	The balancing figure of £2.1m is as yet unallocated and could be used to support defects resolution as well as supporting projects such as SACAMS or LPIS. This will be governed by the normal governance processes through the Finance Reporting Group and CAP Strategy and Delivery Board if required.	[REDACTED TEXT]
Para 41	You supplied information relating to the CGI contract. Bullet 2 related to framework rates. **We thought this agreement had been in place since November, (that being the point the contract was extended). Why did**	CGI contract expiry was due 18th March 2017. The contract extension was agreed in November 2016	[REDACTED TEXT]/CGI

Clearance comments – audit trail template

Para number	Query	Scottish Government response	SG contact
	this element only come into effect in February?	and started on the 19 March 2017 for 2 years. For the existing contract, the commercial model was effective from the 1st November 2016 and a contract variation was implemented to reflect changes to the contract. As part of this variation it was agreed that the contract variation clause which affected framework rates was effective from 1st February 2017.	
Para 45/46	Commercially sensitive information. Para 103 of our May 2016 report disclosed financial penalties. This was not considered commercially sensitive at the time. **Can you clarify why your judgement is different this year?**	Following on from discussions with CGI, it has been agreed the following should be used Para 45 now reads Under the terms of the new contract agreement (paragraph 2) the Scottish Government has withheld £100,000 of development invoices against key business	[REDACTED TEXT]/CGI

Para number	Query	Scottish Government response	SG contact
		release which are only paid out upon successful delivery of release. CGI did not meet the first milestone and monies were therefore retained by Scottish Government. Through the contract negotiation with CGI, rates were renegotiated and CGI agreed to cover the additional cost of any contractor on rates above those agreed in the framework. Since 1 November 2016, CGI has incurred costs of £200,000 for these above-framework rates.	
Para 54	You mentioned that our reference to not meeting the deadline for entitlement letters was not relevant. **Can you explain why this is please?** We provided workings in relation to our estimate of	You can disregard this comment. Calculating a hypothetical level of penalty that would	Andrew Watson

Clearance comments – audit trail template

Para number	Query	Scottish Government response	SG contact
	disallowance of £20 million. **Please can you confirm you have looked at this and agree with the methodology.**	have occurred is complicated by the fact that penalties are applied at a member state level which takes account of the overall UK payment performance. A penalty free sum of 5% of the UK payments made by 30 June would have been available to offset against any late payments made between 1 July to 15 October. The action taken by the Scottish Government to negotiate an extension of the deadline for making Pillar 1 payments minimised the potential late payment penalties for the whole of the UK. The profile of our payments in 2016 in practice reflected the existence of the extension.	
Para 65	We provided our workings and reasons for stating our estimate is now £60 million. **Can you confirm you have looked at this and are content with our reasoning**	We understand the logic of the calculations, while noting that they represent just one possible outcome against a particular set of modelled assumptions. We have no reason at present to believe	Andrew Watson

Para number	Query	Scottish Government response	SG contact
		that audit findings will translate into that level of disallowance, but we constantly keep our controls under review and address any audit findings to reduce the risk of future disallowance.	
Para 66	You noted that the Financial transactions budget is £370 million and not £368 million as we state. We took this from the SBR and recent SG finance papers. **Can you confirm when this budget changed to £370m please?**	Content to leave the figure in para 66 as £368m if this is referring to the SG Financial Transactions budget rather than the loan schemes for ARE (where advances totalled £370m). The confusion arises because para 67 refers to the latter. The narrative needs to be clearer in para 66.	[REDACTED TEXT]
Para 70	We note you are still working on the recoveries of duplicate payments and errors. **Please can you provide this as soon as it becomes available.**	The amounts outstanding for duplicate payments and errors associated with BPS 2016 loans is £0.3m.	[REDACTED TEXT]

Clearance comments – audit trail template

Para number	Query	Scottish Government response	SG contact

FOI/17/01615 – email chains

1. FOI_17_01615 - 201704281332 - FW: Audit Scotland CAP Futures programme: further update report for clearance

From: Morag Campsie
Sent: 28 April 2017 13:32
To: DG Economy
Cc: Mitchell E (Elinor); DG Finance Mailbox; Director of Internal Audit; [Redacted text]
Subject: Audit Scotland CAP Futures programme: further update report for clearance
Sensitivity: Confidential

Dear Liz,

Please find a letter from Caroline Gardner and the clearance draft of our CAP Futures report. We look forward to meeting you on the 10th May to discuss this.

Should you have any questions in the mean time please do not hesitate to get in touch.

Kind Regards,

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text] **E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

[LINK TO DOC004]
[LINK TO DOC005]

2. FOI_17_01615 - 201705020943 - RE Response to Audit Scotland

From: Morag Campsie [mailto:MCampsie@audit-scotland.gov.uk]
Sent: 02 May 2017 09:43
To: [Redacted text]
Cc: Bracewell A (Andrew)
Subject: RE: Response to Audit Scotland

Many thanks

From: [Redacted text]
Sent: 02 May 2017 09:39
To: Morag Campsie
Cc: Andrew.Bracewell@gov.scot
Subject: FW: Response to Audit Scotland

Hi Morag,

Please see the email from Andrew below.

Regards,

[Redacted text]

From: Watson AA (Andrew)
Sent: 28 April 2017 16:32
To: [Redacted text])
Cc: Bracewell A (Andrew); [Redacted text]
Subject: RE: Response to Audit Scotland

[Redacted text]

Thanks for passing on Morag's request on disallowance. We responded on this point as part of the material that [Redacted text] compiled and sent back earlier in the month and I am not preparing a separate paper.

We have had two recent developments though, which I've reflected in an expanded version of earlier response in blue text below. Hope this helps.

Andrew
X47962

<u>Disallowance</u>

Linked to the above points- are there any documents that demonstrate assessing the risk of disallowance and using this to prioritise certain functionality? Has such an exercise been done?

Decisions about prioritising functionality are based on an overall view of business need, including progressing scheduled or delayed payments and meeting regulatory and reporting requirements, and issues of technical capability and capacity. PDCR and the CAP Strategy and Delivery Board provide authority for such decision making. Regulatory compliance is also a key factor in the commissioning model that will support the transition programme going forward.

Have you been notified of any potential penalties/disallowance as a result of any recent audit activity (is there a paper that summarises the current position?)

We are not currently modelling significant penalties/disallowance as a result of the performance of RP&S, but we would expect to have the formal clearance letter for the annual accounts towards the end of the month. This could potentially include some financial corrections but we won't know the amounts until we receive the letter. We have now received the formal clearance letter which has advised that there are no financial corrections. This provides helpful assurance about the performance of RP&S and related financial processes. We have also received the initial findings of the ECA greening audit undertaken during March. While ECA audits do not generate disallowance, the positive nature of these audit findings has also provided an assurance about system performance.

Andrew Watson | Deputy Director for Agricultural Policy Implementation | The Scottish Government
Q1 Spur, Saughton House Edinburgh EH11 3XD | Tel: 0131 244 7962 | andrew.watson@gov.scot

3. FOI_17_01615 - 201705021456 - FW SAF 17 Update 0205

From: Bracewell A (Andrew)
Sent: 02 May 2017 14:56
To: Morag Campsie (MCampsie@audit-scotland.gov.uk)
Cc: [Redacted text]
Subject: FW: SAF 17 Update 02/05

FYI

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: [Redacted text]
Sent: 02 May 2017 14:51

To: Turpie A (Annabel); Turnbull E (Eddie); Bracewell A (Andrew); [Redacted text])
Cc: [Redacted text]
Subject: SAF 17 Update 02/05

All

Please see attached for the daily SAF 17 submissions:

Total Online Applications Received	4937
Total Online Applications in Draft	4926
Total Paper Applications Received	553

Please let me know if you require any further stats or information.

[Redacted text]
Tele No : 0131 244 8015

Email: [Redacted text]

Rual Entitlements and Payments Information Helpline
R1 Spur | Saughton House | EDINBURGH | EH11 3XG

In 2014 Scotland Welcomes the World
To find out more click here

4. FOI_17_01615 - 201705030818 - FW SAF 17 Update 0305

From: Bracewell A (Andrew)
Sent: 03 May 2017 08:18
To: Morag Campsie (MCampsie@audit-scotland.gov.uk)
Subject: FW: SAF 17 Update 03/05

FYI

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: [Redacted text]
Sent: 03 May 2017 08:15
To: Turpie A (Annabel); Turnbull E (Eddie); Bracewell A (Andrew); [Redacted text]
Cc: [Redacted text]
Subject: SAF 17 Update 03/05

All

Please see attached for the daily SAF 17 submissions:

Total Online Applications Received	5331
Total Online Applications in Draft	5000
Total Paper Applications Received	653

Please let me know if you require any further stats or information.

Kind Regards
[Redacted text]

[Redacted text]Tele No : 0131 244 8015

[Redacted text]
Rual Entitlements and Payments Information Helpline
R1 Spur | Saughton House | EDINBURGH | EH11 3XG

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To find out more click here

5. FOI_17_01615 - 201705050923 - FW SAF 17 Update 0405

From: Bracewell A (Andrew)
Sent: 05 May 2017 09:23
To: Morag Campsie (MCampsie@audit-scotland.gov.uk)
Subject: FW: SAF 17 Update 04/05

Hi Morag

Friday update as requested and we have also added in the comparison to last year.

Have a good weekend.

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: [Redacted text]
Sent: 05 May 2017 09:17
To: Turpie A (Annabel); Turnbull E (Eddie); Bracewell A (Andrew); [Redacted text]**Cc:** [Redacted text]Mitchell E (Elinor); Watson AA (Andrew); [Redacted text]
Subject: SAF 17 Update 04/05

Hi

Please see attached for the daily SAF 17 submissions:

	Total SAF 'Received'	Total Online Submitted	Total Paper Receipted	Total Online In Draft
4th May 2017	7713	6820	893	5000
4th May 2016	6261	4813	1448	
4th June 2016 (to set in context of one month window extension in 2016)	16506	12221	4285	

Please let me know if you require any further stats or information.

Kind Regards
[Redacted text]

[Redacted text]Tele No : 0131 244 8015

Email: [Redacted text]

Rual Entitlements and Payments Information Helpline
R1 Spur | Saughton House | EDINBURGH | EH11 3XG

In 2014 Scotland Welcomes the World
To find out more click here

6. FOI_17_01615 - 201705090909 - FW Analysis for loans

From: [Redacted text]
Sent: 09 May 2017 09:09
To: 'Morag Campsie'
Cc: [Redacted text]
Subject: RE: Analysis for loans

Morag

I attach a copy of a paper submitted in August 2016 providing advice to the Cabinet Secretary for Rural Economy and Connectivity and the Cabinet Secretary of Finance and the Constitution on options for a BPS 2016 nationally funded loan scheme.

Annex D provides a financial analysis of the issues and Annex E provides a sensitivity analysis.

Please note as this is advice to Ministers then it is not publishable.

We hope to be able to share the BPS 2016 loan reconciliation with [Redacted text]later today. I do appreciate he has been waiting patiently on this.

Thereafter happy to help with any queries you have to assist with the completion of the report proposed below.

Regards

[Redacted text]**HEAD OF FINANCE, ARE**
Ext 49263

From: Morag Campsie
Sent: 08 May 2017 17:15
To: [Redacted text]
Cc: [Redacted text]
Subject: Analysis for loans

Hi [Redacted text],

As I am sure you are aware, we are currently working on our update report on the CAP Futures programme. For this, I have been working closely with our Scottish Government and EAFA audit teams. For this report we would like to give a high level overview of how the various loan schemes to farmers have been actively managed within the overall SG budget.

My colleague [Redacted text]and I met with Gordon Wales earlier today to get an overview of how decisions were made throughout the year in terms of recycling the FT budget for loans, and in particular, the decision to issue a second BP loan scheme in October. He mentioned that in around August or September ARE provided central finance with some analysis and projections which allowed them to assess what was feasible. He suggested that we ask ARE finance for this, and that is why I am now coming to you.

Can you please provide us with the analysis to which Gordon refers and any other information (for example the ranges you had to work within) that would help our understanding of how decisions were made, and how the schemes have been tightly managed. We do of course have the finance reports to the Exec board which has helped.

I am aware your team are currently working on reconciling the loans register, which I appreciate is a huge task. This information will be helpful for both myself and the Scottish Government audit team. For the purposes of my report we are planning to have a couple of diagrams to explain how the loans (using 2016 BPS loan scheme as an example) have operated, and one showing the timeline for the various schemes (how much was advanced, and how much recovered), giving the year end net position for each (we will of course caveat that this is subject to audit, as we will be publishing in June). The Scottish Government audit team will do more detailed work on the loans over the coming months.

Our report is in clearance, so we are looking to finalise it within the next couple of weeks, and are due to meet Elinor and DG Economy on Wednesday to discuss this.

I would greatly appreciate if you were able to provide this information in the next week. Please let me know if there are any issues.

Many thanks,

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

[LINK TO DOC006]
[LINK TO DOC007]

7. FOI_17_01615 - 201705111447 - CAP Futures report discussion points

From: Morag Campsie
Sent: 11 May 2017 14:47
To: Mitchell E (Elinor)
Cc: Watson AA (Andrew); [Redacted text]
Subject: CAP Futures report discussion points

Hi Elinor,

Many thanks to you and Liz for meeting us again yesterday, once again we found it very useful.

At the meeting we discussed the following points which were for follow up:

Disallowance

- (I've cc'd Andrew for this one). You asked how we'd calculated our "up to £60m" (para 65). I have attached our workings for this. As I explained we based this on the matrices from our EAFA audit report, and assessing the scores against the Audit circular matrix (below our table). Using this we judged 10% as the most likely, but a range from £8m to £40m would be possible. The maximum amount in this table is up to £100m based on 25 %, but we felt this is unlikely. The table is obviously just looking at control weaknesses, there may still be disallowance in relation to, for example, missing the deadline for entitlements. So, there could be additional disallowance on top of this £40m assessment. We also took into consideration that your risk register assesses the risk as 10% of £580m. Therefore, we have used "up to £60m".
- We also use an assessment for what the potential disallowance could have been, had the penalty free period not been extended ("up to £20m" in para 54). For this we used the information we had from the weekly payment updates over this period. The workings are in the second tab. I think initially we had included some payments that were possibly made in June. So, the calculation is £15m. So, we may consider reducing what we currently quote.
- If you could also let us know what is being provided for in the SG accounts (£5m quoted)

Technical Assurance Review

- As we said we will need to see the full report. I, and some of my colleagues do have SCOTS and eRDM access so I wondered if this might be a solution? We don't have access to all areas, so you might need to give us permission (and point us in the right direction!).

Quality- improved payments

- We discussed that the two month delay in making payments wasn't just the system needing to be further developed, but that it was to do with ensuring quality had improved, and doing checks to ensure it went smoothly. You mentioned comparative defect rates as evidence of this. I don't think we have seen this, unless it is in some recent board papers. If you could either supply us with this, or point us in the direction of it that would be very helpful.

Contracts

- We've sent relevant text to Lyndsay at CGI for her to look at. If you could also let us know whether what we have in the report in terms of the contract extensions is ok.

Costs and payments information

- The report currently contains information figures and values for: Applications, payments, loans (advances and recoveries), as well as costs. We would greatly appreciate it if you could provide any updated figures for all this when you send us your clearance comments. We will then date stamp this information as "as at 19th May".

Please do not hesitate to get in touch should you have any further queries.

Thanks again,

Morag

[LINK TO DOC010]

8. FOI_17_01615 - 201705121104 - RE update3

From: Morag Campsie
Sent: 12 May 2017 11:04
To: Bracewell A (Andrew)
Subject: RE: update

Thanks Andy, I was going to check your leaving date was as it happens? Is it the 30th?

And apologies, as I had meant to cc [Redacted text]in too!

From: Andrew.Bracewell@gov.scot [mailto:Andrew.Bracewell@gov.scot]
Sent: 12 May 2017 11:01
To: Morag Campsie
Subject: RE: update

No problem. I am only here until the end of June remember, so it's important you have an alternative contact if you are not getting what you need, hence why I got [Redacted text]involved, but you can email me anytime, you know that.

Regards

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 12 May 2017 10:59
To: Bracewell A (Andrew)
Subject: RE: update

Thanks Andy

From: Andrew.Bracewell@gov.scot [mailto:Andrew.Bracewell@gov.scot]
Sent: 12 May 2017 10:55
To: Morag Campsie
Cc: [Redacted text]; Andrew.Watson@gov.scot; [Redacted text]; [Redacted text]; Annabel.Turpie@gov.scot; [Redacted text]; Eddie.Turnbull@gov.scot; [Redacted text]; [Redacted text]
Subject: RE: update

Hi Morag

Thanks for the update.

No problem with your requests and I have copied in colleagues for awareness of dates/requests. [Redacted text]continues with the responsibility for co-ordinating all responses to you once again, so feel free to contact him too if I am not available.

The executive summary from the technical assurance review that was sent to REC was exactly the same one you had been sent.

The latest SAF 2017 application status which I send you every Friday is attached.

Have a good weekend too.

Regards

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 12 May 2017 10:48
To: Bracewell A (Andrew)

Cc: [Redacted text]
Subject: update

Hi Andy,

I thought it would be useful to send a quick update. As you know we met Liz and Elinor to discuss our report on Wednesday. I've attached the email I sent to Elinor on the back of this yesterday.

I mentioned at the meeting that we would need to have a cut of date for the figures we put in the report, in terms of application numbers, payments, Loan advances and recoveries. So, if you could confirm figures for these as at 19th May (when we are due to get the full clearance comments on the report back) that would be great. In terms of loans, [Redacted text]has been working on reconciling the loans register so that [Redacted text]and colleagues in our SG audit team can do some testing of these for the 16/17 SG accounts. But confirmation of the position of each loan scheme as at 31 March 2017 and as at 19th May (if that's possible?) would be helpful.

We'll also need to make sure that the programme costs as at 31 March (including anticipated spend on remaining areas covered by the £178m) are accurate, so if these have changed (as accruals etc have been finalised) from the figures we have quoted in the draft report, please can you let me know at that point too.

One thing we talked about at the meeting and I forgot to put in my email was could you send us the summary of the TAR that was sent to the REC this week. It's just so we know what they have seen. I'm sure it's the same version that we have, but it may have changed. If you could confirm, and if it is a different version to what we have received if you could send it on please?

In terms of information requirements from now on. As you know we publish on the 15th June, and are due to appear at PAPLS on the 29th June. After that we will be providing an update on the delivery of , particularly on loans, in the our report on the SG audit. This will be at the end of September. So, I may need some updates throughout the summer. However, the weekly payment updates, and monthly PAPLS updates will help.

Many thanks and have a nice weekend.

Morag

Morag Campsie
Audit Manager

Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

9. FOI_17_01615 - 201705151439 - RE 2016 BPS loans

From: [Redacted text]
Sent: 15 May 2017 14:39
To: 'Morag Campsie'
Cc: [Redacted text]
Subject: RE: 2016 BPS loans

Morag

Thanks.

We do have equivalent workbooks for LFASS and BPS2015 loan schemes.

Some of the workings/documentation behind the loan workbooks are on separate worksheets so I have asked [Redacted text]who maintains them to incorporate them on to the relevant workbook for ease of reference. When this is done we can send them over to you/ [Redacted text].

Internal Audit did some work on loans last year and have planned further work this year. [Redacted text]was looking to firm up dates and start this soon.

However, I agree it would make sense to meet and go through the process with [Redacted text]before audit work commences to ensure there is a common understanding as there are a range of variables to be considered.

[Redacted text] and I are happy to meet with Morgan.

My diary is quite full tomorrow but have more options available on Wednesday. Either 10.00 am or 2.00 pm on Wednesday in Spur P1.1 whichever suits [Redacted text]best .

Regards

[Redacted text]**HEAD OF FINANCE, ARE**
Ext 49263

From: Morag Campsie
Sent: 15 May 2017 12:35
To: [Redacted text]
Cc: [Redacted text]
Subject: 2016 BPS loans

Hi [Redacted text],

Many thanks for sending this through. [Redacted text]are starting to look at this ([Redacted text]is currently on another audit just now). They are also due to speak with internal audit to discuss the work they have done throughout the year on the various loans schemes. However, due to the volume and value of transactions we are planning to do some testing ourselves too.

I do have a couple of queries in the interim:

Firstly, would it be possible for someone to sit with [Redacted text]and go through the process. We note that it is a complex process involving 2015 offsets, and top ups, so we want to make sure we fully understand this, and all the relevant adjustments. We might also contact [Redacted text]to walk through the process from her perspective. Would it be ok to get [Redacted text]to arrange something with you or [Redacted text]?

I also wondered if there are equivalent loan registers for LFASS and 2015 BPS loans? Or are you still working on this? From my perspective it would be useful to see this to see the monthly ins and outs, and the year end position. As I think I mentioned previously, we'd like to have an exhibit in the report showing some of this detail (with the caveat "subject to audit"). We are in the process of finalising this report, with clearance comments due back from your colleagues at the end of this week. If you were able to provide some information at this point (or early next week) that would be very helpful.

Many thanks

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

10. FOI_17_01615 - 201705190818 - Rural Payments and Services IT System - Underlying Complexities

From: Turnbull E (Eddie)
Sent: 19 May 2017 08:18
To: [Redacted text]MCampsie@audit-scotland.gov.uk[Redacted text]Dhawan V (Vinay); [Redacted text] Bracewell A (Andrew); Turpie A (Annabel)
Subject: Rural Payments and Services IT System - Underlying Complexities

[Redacted text]
When we met on Wednesday I said that I would forward to you a document describing the areas that cause us the most difficulty when processing payments, and explained how we have established a small "expert" team to try to address these at their roots (rather than rely mostly on workarounds that was the case for SAF 2015). I mentioned that the make-up of the team is such that we are building in some knowledge transfer.

The document is attached.

It should be noted that fundamentally most of these relate to either our dependency on our legacy land system or the inherent complexity of land feature relationships and associated rules which cannot always be catered for by the RP&S System's coded rules.

I have copied in Vinay who is the author and who is leading the Applications Support team that is focusing on these, as they are the main hurdles we need to clear in order to complete payments. We have another Applications Support team that are dealing with other system enhancements/defects not directly relating to making payments, as well as the CGI "owned" development stream that is providing completely new functionality (eg Inspections Findings). Vinay will be able to answer any questions around the detail should you wish.

The document provides a high-level insight into the complexity and granularity that has necessarily been built into the system in order to best target payments to farmers and crofters.

Regards.

Eddie

[LINK TO DOC001]

11. FOI_17_01615 - 201705221000 - RE clearance comments

From: Morag Campsie
Sent: 22 May 2017 12:23
To: Plouviez B (Ben)
Cc: [Redacted text]; Bracewell A (Andrew); [Redacted text]
Subject: RE: clearance comments

Thanks Ben,

I appreciate the quick response.

Morag

From: [Redacted text]
Sent: 22 May 2017 12:21
To: Morag Campsie
Cc: [Redacted text]; Andrew.Bracewell@gov.scot; [Redacted text]
Subject: RE: clearance comments

Morag

In response to your question highlighted below, the new governance structure is not finalised, but is out for final discussion and tweaking, part of which will include validating the memberships.

As things currently are, in the new model [Redacted text] will continue to occupy pretty much the same positions: [Redacted text] on the CAP Strategy and Assurance Board (as it will now be called) and [Redacted text] on the CAP Executive Steering Committee (as now).

Hope this helps

[Redacted text]Head of Information Governance - Agriculture and Rural Economy Directorate
The Scottish Government
Saughton House | Broomhouse Drive | Edinburgh EH11 3XD
T: 0131 244 6671 | M: [Redacted text]

From: Morag Campsie
Sent: 22 May 2017 11:18
To: Bracewell A (Andrew)
Subject: RE: clearance comments

Thanks Andy,

That's great

From: Andrew.Bracewell@gov.scot
Sent: 22 May 2017 10:00
To: Morag Campsie

Cc: [Redacted text]; Andrew.Watson@gov.scot; [Redacted text]; Eddie.Turnbull@gov.scot
Subject: RE: clearance comments

Morag

Some quick answers for you:

Para 17: The IACS packs 2017 (which included SAF 2017 paper forms) were posted out on 5 & 6 April. They weren't late as there is no date in statute for posting them out, only a statutory date for receipt of the completed forms.

Para 24: Release 8 (part 1) did go live as planned on the 19th May.

Regards

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 22 May 2017 09:37
To: [Redacted text]; Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: clearance comments

Thanks [Redacted text],

I can't open the Payments team document, but that's ok as I believe this to be the document that Eddie sent us on last week.

I have a query on the costs you've just sent through, but this will be a question for Andy, [Redacted text]I think. I note the Year end expenditure has been revised down by £1.7 million and that this relates to "previously miscoded expenditure". Could you provide more details on what exactly this was and the rationale for changing where it was coded to please? I presume the adjustment has been made to these codes for the whole year rather than just the last month?

I'd also asked for updated figures for applications, payments and loans, in order to update exhibits and text within the report. The latest available figures for these would be appreciated (specifying what date this is as at).

I realise I perhaps wasn't explicit enough in my request, and didn't specify that updated figures on contractor numbers to April (if not, the end of March) to update exhibit 6 would be appreciated. Would this be possible?

Outwith the exhibits- the following is a summary of information we would like updated figures on to update paragraphs. I realise this may have been captured in the body of the clearance comments that you are due to send me, rather than separate information, but if it was possible to send this information to me now that would be great:

- Para 8- disallowance position as at March 2017.
- Para 17- confirmation of date of issue of paper forms

- Para 21- LFASS- outstanding amounts
- Para 24- did release 8 go live on 19th as planned (Eddie indicated it might go live today instead)
- Para 41- Amount withheld from CGI since November (has this increased from the £100k position quoted).
- Para 63- Penalties from audit activity
- Para 70- amount recovered to date from duplicate and payment errors

Finally, I note from April board papers that a new governance structure was proposed. I just wondered if this was finalised, and if it was possible to confirm membership. I am particularly interested in what non execs sit will sit on which board. As I recall James Hall and Bob Downes were brought on earlier in the year to sit on the CAP S & D board. If you could confirm that would be very helpful.

Many thanks in advance,

Morag

From: [Redacted text]
Sent: 22 May 2017 08:37
To: Morag Campsie; Andrew.Bracewell@gov.scot
Cc: [Redacted text]
Subject: RE: clearance comments

Morag

I hope this is the information you are after.

<u>Quality- improved payments</u>
Information on comparative defects -

- Drop 6, SAF 2017 and Release 9 all delivered to revised and agreed timescales
- Release quality showing improving trend:
- Drop 6 – went live with 46 high defects
- SAF 2017 – went live with 17 high defects
- Release 9 - went live with 13 high defects
- UAT pass rate demonstrably improved in Release 8 in particular (UAT pass rate > 80%; Regression testing pass rate > 95%)
- Revised Hypercare approach adopted for Release 9 delivered closure on all remaining pre go-live defects within 2 weeks of go-live (1 exception agreed to be managed by ISD)

<u>Futures Programme costs as of 31 March 2017</u>

<u>Additional info on Payment Team Activities on SAF 2016</u>

Payments Team - AS
v0.2.docx

Thanks

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate

0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 22 May 2017 07:43
To: [Redacted text]; Bracewell A (Andrew)
Cc: [Redacted text])
Subject: RE: clearance comments
Importance: High

Hi,

As well as responses to our report we'd also asked for updated figures and additional information to be supplied as well. I was wondering if it would be at all possible to send this information through at least? This would help us finalise our exhibits with our communications team if nothing else.

My plan was to get the exhibits sorted, and then to send these back so that you could get a better idea of what these would look like. Therefore, if you were able to send this information through this morning, prior to sending the comments back, that would be a huge help.

Many thanks,

Morag

From: [Redacted text]
Sent: 19 May 2017 17:01
To: Morag Campsie; Andrew.Bracewell@gov.scot
Cc: [Redacted text]
Subject: RE: clearance comments

Morag

Thanks. Unfortunately they will not be cleared today but will endeavour to provide as early as possible.

Thanks

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 19 May 2017 16:55
To: [Redacted text]; Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: clearance comments

Hi,

Just to note they were due back today. So, if it is definitely going to be Monday if you could let me know. I'll need to liaise with colleagues in order to make sure we can turn everything round for the Auditor General within our planned timescales. So, if we aren't going to receive them today as early as possible on Monday would be appreciated.

Regards,

Morag

From: [Redacted text]
Sent: 19 May 2017 16:50
To: Morag Campsie; Andrew.Bracewell@gov.scot
Cc: [Redacted text]
Subject: RE: clearance comments

Morag

Thanks – I'll speak to Liz's office on Monday and give you a better idea of timescale.

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 19 May 2017 16:49
To: [Redacted text]; Bracewell A (Andrew)
Cc: [Redacted text]**Subject:** RE: clearance comments

Hi [Redacted text],

Thanks for the update, but best to wait until they are officially cleared. It was just so I could formulate some plans. As long as I know it's on its way.

Thanks,

Morag

From: [Redacted text]
Sent: 19 May 2017 16:46
To: Morag Campsie; Andrew.Bracewell@gov.scot
Cc: [Redacted text]
Subject: RE: clearance comments

Morag

I have been collating the comments and they are with Liz Ditchburn for clearance but I could let you have sight of them now if helpful on the basis that they have yet to be cleared.

Thanks

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 19 May 2017 16:32
To: Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: clearance comments

Thanks Andy, that's helpful.

Regards,
Morag

From: Andrew.Bracewell@gov.scot
Sent: 19 May 2017 16:26
To: Morag Campsie
Cc: [Redacted text]; [Redacted text]
Subject: Re: clearance comments

Hi Morag

I have seen a few emails going around with the latest consolidated comments sent to Elinor for final review and presume she will then send on to you once she is content.

Regards

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural
Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / [Redacted text]

From: Morag Campsie
Sent: Friday, 19 May 2017 16:09
To: Bracewell A (Andrew)
Cc: [Redacted text]**Subject:** clearance comments

Hi Andy,

I'm not sure if you would be able to help me, but do you happen to know if we will get clearance comments back (and information) on the report today?

Many thanks, and have a nice weekend

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

12. FOI_17_01615 - 201705221031 - RE CAP Futures report discussion points

From: [Redacted text] **On Behalf Of** Mitchell E (Elinor)
Sent: 22 May 2017 10:31
To: Morag Campsie; Mitchell E (Elinor)
Cc: Watson AA (Andrew); [Redacted text]DG Economy; Bracewell A (Andrew); Watson AA (Andrew); [Redacted text]Turpie A (Annabel)
Subject: RE: CAP Futures report discussion points

Morag

Subsequent to the discussion with Elinor and Liz, please find attached the comments and information as requested. Elinor and Liz would be grateful if they could see a final version once these comments have been considered prior to publication.

Thanks

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 11 May 2017 14:47
To: Mitchell E (Elinor)
Cc: Watson AA (Andrew); [Redacted text]
Subject: CAP Futures report discussion points

Hi Elinor,

Many thanks to you and Liz for meeting us again yesterday, once again we found it very useful.

At the meeting we discussed the following points which were for follow up:

Disallowance

- (I've cc'd Andrew for this one). You asked how we'd calculated our "up to £60m" (para 65). I have attached our workings for this. As I explained we based this on the matrices from our EAFA audit report, and assessing the scores against the Audit circular matrix (below our table). Using this we judged 10% as the most likely, but a range from £8m to £40m would be possible. The maximum amount in this table is up to £100m based on 25 %, but we felt this is unlikely. The table is obviously just looking at control weaknesses, there may still be disallowance in relation to, for example, missing the deadline for entitlements. So, there could be additional disallowance on top of this £40m assessment. We also took into consideration that your risk register assesses the risk as 10% of £580m. Therefore, we have used "up to £60m".
- We also use an assessment for what the potential disallowance could have been, had the penalty free period not been extended ("up to £20m" in para 54). For this we used the information we had from the weekly payment updates over this period. The workings are in the second tab. I think initially we had included some payments that were possibly made in June. So, the calculation is £15m. So, we may consider reducing what we currently quote.
- If you could also let us know what is being provided for in the SG accounts (£5m quoted)

Technical Assurance Review

- As we said we will need to see the full report. I, and some of my colleagues do have SCOTS and eRDM access so I wondered if this might be a solution? We don't have access to all areas, so you might need to give us permission (and point us in the right direction!).

Quality- improved payments

- We discussed that the two month delay in making payments wasn't just the system needing to be further developed, but that it was to do with ensuring quality had improved, and doing checks to ensure it went smoothly. You mentioned comparative defect rates as evidence of this. I don't think we have seen this, unless it is in some recent board papers. If you could either supply us with this, or point us in the direction of it that would be very helpful.

Contracts

- We've sent relevant text to Lyndsay at CGI for her to look at. If you could also let us know whether what we have in the report in terms of the contract extensions is ok.

Costs and payments information

- The report currently contains information figures and values for: Applications, payments, loans (advances and recoveries), as well as costs. We would greatly appreciate it if you could provide any updated figures for all this when you send us your clearance comments. We will then date stamp this information as "as at 19th May".

Please do not hesitate to get in touch should you have any further queries.

Thanks again,

Morag

[LINK TO DOC001]
[LINK TO DOC002]
[LINK TO DOC003]

13. FOI_17_01615 - 201705221403 - RE CAP Futures report discussion points

From: Morag Campsie [mailto:MCampsie@audit-scotland.gov.uk]
Sent: 22 May 2017 14:03
To: Mitchell E (Elinor)
Cc: Watson AA (Andrew); [Redacted text]DG Economy; Bracewell A (Andrew); Watson AA (Andrew); [Redacted text]Turpie A (Annabel)
Subject: RE: CAP Futures report discussion points

Hi Elinor,

I think we shared specific sections (and exhibits) where there had been significant changes last year, but not the whole report as I recall. I will double check. However, this would have been an exception due to the nature of the report. As a standard rule we do not share the whole report after the clearance period, only the embargoed copy.

Once we've discussed the report with the Auditor General, we're happy to share any significant changes with you, so you are sighted on them.

I'll be in touch to update you on progress later in the week. I may also need clarification on some of the points that have been raised, as we work through these.

Kind Regards,

Morag

From: Elinor.Mitchell@gov.scot
Sent: 22 May 2017 11:55
To: Morag Campsie
Cc: Andrew.Watson@gov.scot; [Redacted text]; DGEconomy@gov.scot; Andrew.Bracewell@gov.scot; Andrew.Watson@gov.scot; [Redacted text]Annabel.Turpie@gov.scot
Subject: RE: CAP Futures report discussion points

Hi Morag
Thanks – can I just check something with you? My understanding was that we did get to see the final draft version in advance of publication last year – was that just because it was not the kind of report that had been expected?
Kind Regards
Elinor

From: Morag Campsie
Sent: 22 May 2017 11:29
To: Mitchell E (Elinor)
Cc: Andrew.Watson@gov.scot; [Redacted text]; DGEconomy@gov.scot; Andrew.Bracewell@gov.scot; Andrew.Watson@gov.scot; [Redacted text]Annabel.Turpie@gov.scot
Subject: RE: CAP Futures report discussion points

Hi Elinor,

Many thanks for this and the additional information.

We will consider your comments and discuss these with the Auditor General in due course. We do not normally share the final version of the report prior to publication other than the embargoed version which you will receive on Monday 12th June.

However, as agreed when we met on the 10th May, we will send through any paragraphs that have had a significant re-write. In addition, our communications team are currently working on the exhibits, and I will share these with you so that you have a better idea of what these will look like. I should be able to do this by the end of this week, or next Monday at the latest.

Kind regards,

Morag

14. FOI_17_01615 - 201705251717 – Exhibits

From: Morag Campsie
Sent: 25 May 2017 17:17
To: Mitchell E (Elinor)
Cc: Bracewell A (Andrew); [Redacted text]Turpie A (Annabel); Watson AA (Andrew); Turnbull E (Eddie); [Redacted text]; [Redacted text]
Subject: Exhibits

Hi Elinor,

I said I would share our exhibits as soon as I could. They are now in a better shape. A few things to note:

- Exhibit 3- As per my previous email we are looking to add more information to this exhibit.
- The exhibits on the loans (4 and 7)are still a bit of a work in progress, but we are essentially trying to show when the schemes operated and when payments made and loans recovered. We've just received some more information on loans so we've not had the chance to reflect these changes and update the figures and the timings of advances and recoveries yet. We are also considering the order these appear in the report, and whether this information should be combined.
- Exhibit6- as per previous email, we would like to extend this up to March 2017 or April 2017 if the information is available.
- Exhibit 8- is a simplified version of the governance structure which has operated to date.

Please can you let us know if anything is factually inaccurate.

Many thanks,

Morag

[LINK TO DOC011]

15. FOI_17_01615 - 201705311224 - RE clearance comments2

From: Morag Campsie
Sent: 31 May 2017 12:24
To: [Redacted text]
Cc: [Redacted text]; Bracewell A (Andrew); [Redacted text]; Turnbull E (Eddie)
Subject: RE: clearance comments

Thanks [Redacted text],

That's helpful, and this will be enough for our work for this report. However, as part of the Scottish Government accounts audit we tend to select a sample of year end adjustments and transactions to test more fully. So it might be that some of my colleagues get in touch over the summer to do more detailed testing on some of this.

Thanks again,

Morag

From: [Redacted text]
Sent: 31 May 2017 10:12
To: MCampsie@audit-scotland.gov.uk
Cc: [Redacted text]Bracewell A (Andrew); [Redacted text]; Turnbull E (Eddie)
Subject: FW: clearance comments

Morag,

In response to your query below:

"I note the Year end expenditure has been revised down by £1.7 million and that this relates to "previously miscoded expenditure". Could you provide more details on what exactly this was and the rationale for changing where it was coded to please? I presume the adjustment has been made to these codes for the whole year rather than just the last month?"

Our response is shown below:

This is from a number of costs not materialising as expected and one element of revised coding of expenditure. You will see that these are specific adjustments and do not relate other Futures charging treatments that we have maintained in a consistent manner throughout the year.

The detail is as follows:-
- Hardware £209k (expenditure relating to 2015-16 and accrued as such)
- Software licences £277k (reduced licence fee)
- Supplier retention £144k (this is not payable until 2016-17)
- Supplier overtime assumption £450k (reduction in anticipated overtime costs from CGI)
- Some areas identified for recoding £209k (charged to assets under construction and moved to transitional costs)
- £411k was minor variances from the forecast due to journals/accruals that had been processed in SEAS between P12/P13.

Let me know if you require further details.

Thanks,
[Redacted text]
[Redacted text]
Head of PMO
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

U1 Spur | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0131 244 7389 (Ext: 47389) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 30 May 2017 13:33
To: [Redacted text]
Subject: RE: clearance comments

Thanks [Redacted text]

From: [Redacted text]
Sent: 30 May 2017 13:22
To: Morag Campsie; Andrew.Bracewell@gov.scot
Cc[Redacted text]
Subject: RE: clearance comments

Thanks – I will pick this up and come back to you very shortly.

Regards
[Redacted text]
From: Morag Campsie
Sent: 30 May 2017 13:20
To: Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: clearance comments

Thanks very much Andy, much appreciated.

Morag

From: Andrew.Bracewell@gov.scot
Sent: 30 May 2017 13:10
To: Morag Campsie
Cc: [Redacted text]
Subject: RE: clearance comments

Hi Morag

[Redacted text]is off sick today so I am chasing down the answer on contractor numbers with CGI for you. I have also asked for the April figures. Hopefully have an answer later today.

For the questions on costs and miscoded expenditure I will have to leave these with [Redacted text]to answer. I have removed [Redacted text]from the distribution list as he no longer works in ARE.

The questions relating to loans and recoveries in the last paragraph will be for [Redacted text]to answer.

Thanks.

Regards

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 30 May 2017 12:15
To: Bracewell A (Andrew); [Redacted text]
Subject: RE: clearance comments
Importance: High

Hi,

Many thanks for the clarifying the points I raised last week, including sending the contractor numbers for March. Would it be possible to get the figure for February too please as we don't appear to have this (we have January as 191)?

We are doing some final cross checking and I have a query on CGI costs. In para 32 of the report we have said £107 million had been paid to CGI as at 31 March 2017. This was an estimate. We didn't receive any comments on this paragraph, but I have been reviewing some of the papers provided including CGI finance summaries, and I think this figure might be too low. Could you confirm how much had been paid to CGI as at 31 March 2017 please? (we had also written "most of these costs are for CGI staff and contractors, but I think it would be more accurate to say "all" would it not?)

I also realise I raised a question in the email below. Apologies as I failed to add this to the table I sent later in the week. It was in relation to the miscoded expenditure. Could you provide more details on what exactly this was (which account codes) and the rationale for changing where it was coded to please? I presume the adjustment has been made to these codes for the whole year rather than just the last month?

Finally, can you please confirm over what months the cashflow loan scheme advances and recoveries were made. We're in the process of updating Exhibit 4 with the information provided at the end of last week, but just want to make sure all the loans schemes are accurately represented in this. We had provisionally put in that advances were made in March 2016, with recoveries over the period April to October- is this an accurate reflection or we recoveries quicker and only in specific months?

Cheers,

Morag

16. FOI_17_01615 - 201705251739 - RE Follow up

From: Morag Campsie [mailto:MCampsie@audit-scotland.gov.uk]
Sent: 25 May 2017 17:39
To: Mitchell E (Elinor)
Cc: [Redacted text]; Bracewell A (Andrew); Turpie A (Annabel); Turnbull E (Eddie); Watson AA (Andrew); [Redacted text]
Subject: RE: Follow up

Thanks very much for turning this around so quickly.

Kind regards,

Morag

From: [Redacted text] **On Behalf Of** Elinor.Mitchell@gov.scot
Sent: 25 May 2017 17:34
To: Morag Campsie
Cc: [Redacted text]; Andrew.Bracewell@gov.scot; Annabel.Turpie@gov.scot; Eddie.Turnbull@gov.scot; Andrew.Watson@gov.scot; [Redacted text]; [Redacted text]
Subject: FW: Follow up

Morag

Please find attached response to your follow up questions, with the exception of responses from Andrew which will be provided on Tuesday.

Best wishes

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 24 May 2017 14:28
To: Mitchell E (Elinor)
Cc: : [Redacted text]; Andrew.Bracewell@gov.scot; Annabel.Turpie@gov.scot;

Eddie.Turnbull@gov.scot; Andrew.Watson@gov.scot; [Redacted text]; [Redacted text]
Subject: Follow up
Importance: High

Hi Elinor,

Many thanks once again for sending through the clearance comments. We have been reviewing this and a have a few follow-up questions for you. This is to ensure our understanding is correct. I have attached a table summarising our queries. We've also captured any information we are still waiting on in this document.

I would greatly appreciate it if you and your team could look at this and get back to us with responses and information as soon as possible. Ideally we would like this information by the end of this week. If there are any issues with any of this, please let me know.

Many thanks in advance.

Morag

17. FOI_17_01615 - 201705311224 - RE clearance comments2
18. FOI_17_01615 - 201705311634 - RE Follow up

From: [Redacted text]**On Behalf Of** Mitchell E (Elinor)
Sent: 31 May 2017 16:34
To: Mitchell E (Elinor); Morag Campsie (MCampsie@audit-scotland.gov.uk)
Cc: [Redacted text]Bracewell A (Andrew); Turpie A (Annabel); Turnbull E (Eddie); Watson AA (Andrew); [Redacted text]
Subject: RE: Follow up

Morag

Please find attached the full response including those from Andrew and the disallowance paper as requested.

Thanks

[Redacted text]Head of Strategic Support
Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: [Redacted text]**On Behalf Of** Mitchell E (Elinor)
Sent: 25 May 2017 17:34
To: Morag Campsie
Cc: [Redacted text]; Bracewell A (Andrew); Turpie A (Annabel); Turnbull E (Eddie); Watson AA (Andrew); [Redacted text]
Subject: FW: Follow up

Morag

Please find attached response to your follow up questions, with the exception of responses from Andrew which will be provided on Tuesday.

Best wishes

[Redacted text]Head of Strategic Support

Agriculture and Rural Economy Directorate
0131 244 2189
[Redacted text]
From: Morag Campsie
Sent: 24 May 2017 14:28
To: Mitchell E (Elinor)
Cc: [Redacted text]; Bracewell A (Andrew); Turpie A (Annabel); Turnbull E (Eddie); Watson AA (Andrew); [Redacted text]
Subject: Follow up
Importance: High

Hi Elinor,

Many thanks once again for sending through the clearance comments. We have been reviewing this and a have a few follow-up questions for you. This is to ensure our understanding is correct. I have attached a table summarising our queries. We've also captured any information we are still waiting on in this document.

I would greatly appreciate it if you and your team could look at this and get back to us with responses and information as soon as possible. Ideally we would like this information by the end of this week. If there are any issues with any of this, please let me know.

Many thanks in advance.

Morag

[LINK TO DOC012 - REDACTED]
[LINK TO DOC013]

19. FOI_17_01615 - 201705311715 - RE clearance comments

From: [Redacted text]
Sent: 31 May 2017 17:15
To: 'Morag Campsie'
Cc: [Redacted text]
Subject: RE: clearance comments

Morag

As requested I attach an analysis of the Hardship (cashflow) scheme.

This shows the months the loans were repaid in full or part.

You will note that there was an outstanding balance for some of these loans totalling £22k at 31 March 2017.

This is because some of the producers received both a Hardship loan and a BPS 2015 loan and their BPS 2015 grant was insufficient to cover both hence we are pursuing these as debts (rather than as loans) and the balance of £22k is held under Debtors .

Happy to discuss if anything is unclear.

Regards

[Redacted text]**HEAD OF FINANCE, ARE**

Ext 49263

From: Morag Campsie
Sent: 30 May 2017 13:36
To: Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: clearance comments

[Redacted text],

This is perhaps one for you. Do you know if Andrew Watson will be getting back to me today on the missing points from Elinor's email of Thursday? I am happy to wait until tomorrow for this, and indeed the points below as I know it was a holiday weekend and some of you may have been off.

Many thanks,

Morag

[LINK TO DOC014]

20. FOI_17_01615 - 201706011404 - RE Resource numbers at end Feb end April

From: Morag Campsie
Sent: 01 June 2017 14:04
To: Bracewell A (Andrew)
Subject: RE: Resource numbers at end Feb & end April

Thanks Andy

From: Andrew.Bracewell@gov.scot
Sent: 01 June 2017 13:20
To: Morag Campsie
Cc: [Redacted text]
Subject: FW: Resource numbers at end Feb & end April
Importance: High

Morag

As requested.

Thanks.

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: McGranaghan, Lindsay
Sent: 01 June 2017 13:15
To: Bracewell A (Andrew)

Subject: FW: Resource numbers at end Feb & end April
Importance: High

Andy

Sorry for delay. End of Feb we had 207 active resource and end April we had 184.

Kind Regards

Lindsay

21. FOI_17_01615 - 201706011544 - RE CGI and contractor

Thanks very much [Redacted text],

So, I will change the figure I have in the report to £114m (rounding up), and say that all of this relates to CGI staff and contractor costs (time, travel, accommodation and expenses). As this would be the most accurate reflection wouldn't it?

That should be all my queries now.

Thanks again for all your help.

Morag

From: [Redacted text]
Sent: 01 June 2017 14:58
To: Morag Campsie; Andrew.Bracewell@gov.scot
Cc: [Redacted text]
Subject: RE: CGI and contractor

Hi Morag,

The total amount paid to CGI as at 31 March 2017 is £113,735,414.16 (including VAT where applicable). Please note that all costs for 2016-17 have now been invoiced with the exception of the costs in the table below, which are still to be settled.

Milestone 3 (February 2017)	£	345,278.00
Retentions (June payment milestone)	£	143,989.90
TOTAL OUTSTANDING	£	489,267.90

Kind regards,
[Redacted text]
From: [Redacted text]
Sent: 01 June 2017 10:43
To: 'Morag Campsie'; Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: CGI and contractor

Hi Morag,

We are still clarifying the amount paid to CGI and should provide this to you today.

Regards,
[Redacted text]
From: Morag Campsie
Sent: 01 June 2017 09:29
To: Bracewell A (Andrew)
Cc: [Redacted text]
Subject: RE: CGI and contractor

Thanks Andy

From: Andrew.Bracewell@gov.scot
Sent: 01 June 2017 09:26
To: Morag Campsie
Cc: [Redacted text]
Subject: RE: CGI and contractor

Hi Morag

I was literally just chasing [Redacted text] for the contractor numbers when your email came in. Will get them to you today.

The amount paid is with [Redacted text].

[Redacted text]won't be back this week, hopefully Monday.

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 01 June 2017 09:24
To: Bracewell A (Andrew); [Redacted text]
Subject: CGI and contractor

Hi All,

I don't seem to have received confirmation of the amount paid to CGI yet, or the contractor numbers. I understand this might be because [Redacted text] might still be off.
Do you think you will be able to provide this information today, or at the latest tomorrow?

Thanks very much.

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

22. FOI_17_01615 - 201706051712 - FW Follow up

From: Mitchell E (Elinor)
Sent: 05 June 2017 17:12
To: Morag Campsie
Subject: RE: Follow up

Hi Morag
Thanks for this. Can I just check that you have now returned the copy of the Fujitsu report that we shared with you to give greater context for your report?
I must say that I am disappointed we won't get to see the final draft before the 12th – I have appreciated how closely the teams have been working together and cooperating up until this point.
Kind Regards
Elinor

From: Morag Campsie
Sent: 01 June 2017 16:25
To: Mitchell E (Elinor)
Cc: [Redacted text]; Bracewell A (Andrew); Turpie A (Annabel); Turnbull E (Eddie); Watson AA (Andrew); [Redacted text]
Subject: RE: Follow up

Hi Elinor,

Many thanks to you and the team for clarifying our queries and providing additional information. We have now reflected on all your comments and discussed these with the Auditor General. We have made some changes to the text and figures on the back of this. However, we do not consider these changes to be significant.

We have put arrangements in place for an embargoed copy of the report to be sent to you and Liz on Monday 12th June in advance of publication on the 15th. Our communications team will also send a copy of the news release out in advance as well.

Thanks once again for all you help over the last few months.

Kind regards,

Morag

23. FOI_17_01615 - 201706061231 - RE quick question

From: Morag Campsie
Sent: 06 June 2017 12:31
To: Bracewell A (Andrew)
Subject: RE: quick question

Thanks Andy,

I'll wait to get confirmation. I have a meeting shortly but If I've not heard from [Redacted text]by about 3 I'll give him call.

Cheers,

Morag

From: Andrew.Bracewell@gov.scot
Sent: 06 June 2017 12:17
To: Morag Campsie
Subject: RE: quick question

Hi

I believe you are correct and it is accurate to say November 2016 if my recollection is right, but I would just like [Redacted text]to confirm.

Regards

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 06 June 2017 11:59
To: Bracewell A (Andrew)
Subject: RE: quick question

Hi Andrew,

Sorry, Elinor wanted to speak to me so I had to give her priority I'm afraid. As it happened Andrew sat in on the conversation so was able to answer my applications query so I think you are off the hook.

I will try and get in touch with [Redacted text]later, but it was essentially just to check around paras 41, 45 and 46. We were advised to change our bullet in para 41 about day rates being fixed in February 2017 (we had put November). It occurred to me in para 45, we now refer to "Since 1 November 2016, CGI has incurred costs of £200,000 for these above-framework rates"

On reading this again, this seems at odds with the earlier February 2017 statement. Is it accurate to say Since, November 2016?

Unless you know the answer?

Cheers,

Morag

From: Andrew.Bracewell@gov.scot
Sent: 06 June 2017 08:00
To: Morag Campsie
Subject: RE: quick question

Hi Morag

[Redacted text]is best for contract questions and he is back in the office this week.

I am just off to a meeting but free between 09:00 and 10:00 if you want to give me a call on my desk number below.

Thanks.

Andy Bracewell

Portfolio Director
Scottish Government: Agriculture and Rural Economy Directorate (ARE)

C1 Spur, Room C1-2 | Saughton House | Broomhouse Drive | Edinburgh | EH11 3XD
0300 244 3186 (Ext: 43186) / Mobile: [Redacted text]

From: Morag Campsie
Sent: 06 June 2017 07:44
To: Bracewell A (Andrew)
Subject: quick question

Hi Andy,

How are you? I was just wondering if you'd have time for a quick chat this morning? I just want to check a couple of things with you regarding the contract and applications. To be honest, [Redacted text]might be best on the contract, but I wasn't sure if he was back? And I wasn't sure whether I should just go to [Redacted text]directly too, but thought I would start with you.

They should be very easy questions to answer!

Cheers,

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

24. FOI_17_01615 - 201706061737 - RE Follow Up Call

From: Eddie.Turnbull@gov.scot [mailto:Eddie.Turnbull@gov.scot]
Sent: 06 June 2017 17:37
To: [Redacted text]Morag Campsie
Cc: [Redacted text]
Subject: RE: Follow Up Call

[Redacted text]/Morag

Thanks for the discussion earlier.

Clearly you will have decided on the wording that will finally go in the report for Key Message 2. My interpretation of what you said is:-

The programme closed at the end of March 2017, but parts of the IT system continue to be developed by the Agriculture and Rural Economy (ARE) directorate alongside the operational activity associated with a "live" system. It expects to deliver a system that complies with CAP regulations within the £178 million budget. There will be characteristic on-going costs associated with the maintenance and enhancement of the system, in line with directorate's annual business cycle, which has been budgeted for beyond the £178m. However, in addition to this, an independent technical review has identified a number improvements to the IT system that are essential to make it more easily maintainable and more flexible going forward, which will result in additional investment. Two contracts, with a forecast value of £33m over two years, with existing suppliers have been extended to carry out the maintenance and enhancement work, as well as maintain legacy systems. Because of the dependency that will still exist on legacy systems until they are replaced during 2017-18, recovery from an extreme event could take some weeks. A disaster recovery solution covering all IT systems that has a much quicker restore time has to be fully developed and comprehensively tested.

My last comment on Disaster Recovery reflects the fact that we do have a recovery policy in place and elements have been tested. But, as you say in the main body of the Report (as does Fujitsu), an extreme event occurring at a critical point in the payment cycle would have a massive impact.

Regards.

Eddie

From: [Redacted text]
Sent: 06 June 2017 15:11
To: Turnbull E (Eddie); Morag Campsie
Cc: [Redacted text]
Subject: RE: Follow Up Call

Hi Eddie,

I ideally need to leave at 4.30 – is there anyway we could start at 4.05 and see if we can finish by then?

[Redacted text]
From: Eddie.Turnbull@gov.scot
Sent: 06 June 2017 14:58
To: [Redacted text]; Morag Campsie
Cc: [Redacted text]
Subject: RE: Follow Up Call

[Redacted text]
That's great.

[Redacted text]is in a meeting until 4pm. I will send a meeting invitation for 4:15pm.

Hope that's OK.

You can reach us on 0131 244 2345.

Regards.

Eddie

From: [Redacted text]
Sent: 06 June 2017 14:41
To: Turnbull E (Eddie); Morag Campsie
Cc: [Redacted text]
Subject: RE: Follow Up Call

Thanks Eddie – me and Morag are free for the rest of the afternoon. Do you want to suggest a time that suits?

[Redacted text]

From: Eddie.Turnbull@gov.scot
Sent: 06 June 2017 14:37
To: Morag Campsie; [Redacted text]
Cc: [Redacted text]
Subject: Follow Up Call
Importance: High

Morag/[Redacted text]

Just following up our telephone conversation.

I can take a call this afternoon if you wish in order to obtain a joint understanding of costs.

I have included [Redacted text]who is responsible for the contract arrangements with CGI and SOPRA.

I don't think there are any inaccuracies in the Report per se around costs. As I said on the call it is just that in summarising your points from the body of the Report information relating to the £178m, residual work within the £178m, budget provision and potential contract value appear to have been conflated.

Regards.

Eddie

25. FOI_17_01615 - 201706081320 - RE loans payments query and errors1

From: Morag Campsie
Sent: 08 June 2017 13:20
To: Turpie A (Annabel)
Cc: Watson AA (Andrew); Bracewell A (Andrew); [Redacted text]
Subject: RE: loans/ payments query and errors

Thanks Annabel,

Much appreciated.

Regards,

Morag

From: Annabel.Turpie@gov.scot
Sent: 08 June 2017 13:01
To: Morag Campsie
Cc: Andrew.Watson@gov.scot; Andrew.Bracewell@gov.scot; [Redacted text]
Subject: FW: loans/ payments query and errors
Importance: High

Hi Morag, I hope you are well

I know that [Redacted text] has spoken to you to confirm the position with loans across both years.

I've confirmed with our finance team that on duplicate payments for 2015 BPS grant was £0.85m (fully recovered) and £0.36m (decision taken to recover that in the usual way against future payments).

Kind regards
Annabel

From: Watson AA (Andrew)
Sent: 08 June 2017 11:18
To: Bracewell A (Andrew); [Redacted text]Turpie A (Annabel); [Redacted text]
Cc: [Redacted text]
Subject: FW: loans/ payments query and errors
Importance: High

All

Would you be able to pick up with Morag? I am about to drive to Perth.

Perhaps feeding back through [Redacted text]?

Andrew

Andrew Watson | Deputy Director for Agricultural Policy Implementation | The Scottish Government
Q1 Spur, Saughton House Edinburgh EH11 3XD | Tel: 0131 244 7962 | andrew.watson@gov.scot

From: Morag Campsie
Sent: 08 June 2017 10:39
To: Watson AA (Andrew)
Subject: FW: loans/ payments query and errors
Importance: High

Hi Andrew,

Would you have time for a very quick call this morning? Or can you answer the following. I only have until lunchtime to sort this.

I've just been looking at this again, and I'm still not convinced what we have is correct in the report.

In the report we reference the errors and duplicate payments that were reported to PAPLS on 7th (letter) and 8th December (evidence session).

Based on information received over the past week, we changed what we had written to:

- "For the 2016 BPS loans scheme, in total errors totalling £1.2m were made, including duplicate payments, of which £0.9 m has been recovered".

I added in the "for 2016 BPS loans scheme" based on information received, and I'd based the £0.9m on the £1.2m being correct original amount of error and there being £0.3m being outstanding.

On reading the letter to PAPLS. It appears around £1.35 m (£0.85m + £0.5m) was made in duplicate payments in relation to 2015 BPS grant, of which the £0.85m was fully recovered.

And £0.75m in relation to 2016 BPS loans at that point. However, I think more errors may have been made after this point.

(So, overall errors for reported to PAPLS at this point was £2.1m)

Our recent work on the loans registers indicates total errors relating to 2016 BPS loans of around £1.7m. Although there are a number of entries and this uses the both the loans register and previous workbooks provided on overpayments, and errors.
Would you agree with this assessment? In which case I will change the wording to errors for 2016 BPS loans totalling £1.7m with £0.3m outstanding. (if you agree this is more accurate)

In terms of the £0.5m 2015 BPS grant payment errors, do you know if these have been recovered?

Happy to discuss, If you could get back to me ASAP

Many thanks

Morag

From: [Redacted text]
Sent: 07 June 2017 17:48
To: Morag Campsie
Cc: [Redacted text]; Andrew.Watson@gov.scot
Subject: RE: loans/ payments query and errors

Morag

Sorry for the delay in getting back to you.

1) BPS 2015 Outstanding Loans in excess of outstanding BPS 2015 grants.

The outstanding BPS 2015 loans do exceed the amount of BPS 2015 grants payable at 31 March 2017

The main reasons for this are as follows

The scheme was an opt out scheme and around 90 businesses were subsequently determined as not entitled to receive a BPS2015 grant (approx value £780k).

There were also some businesses who

a) received a BPS2015 loan and a BPS2015 grant without offset. There is a balance for around 20 of these still to be recovered with approx value £36k .

b) received a BPS2015 loan in excess of the BPS 2015 grant entitlement . There are 3 of these with an approx outstanding value of £44k.

2) Errors in loans.

You have captured the errors notified to the Parliamentary committees in December 2016 for the BPS2016 loans. There were also errors in BPS2015 loans made earlier in 2016 which are not included in this update.

So you are correct to say the outstanding recovery amounts for BPS2016 loans at 31 March 2017 due to errors was approx £0.3m

Pls note I am [Redacted text]but back on Friday should you wish to discuss further.

Regards

[Redacted text]**HEAD OF FINANCE, ARE**
Ext 49263

From: Morag Campsie
Sent: 05 June 2017 13:59
To: [Redacted text]
Cc: [Redacted text]Bracewell A (Andrew)
Subject: loans/ payments query and errors
Importance: High

Hi [Redacted text],

Apologies for another query, but we are just doing some final checks and have spotted a couple of anomalies which we can't explain. Hopefully quick ones to answer!

Previously we got confirmation that there were 25 of the 2015 BPS payments outstanding with a value of around £150,000. Looking at the 2015 BPS loans scheme there were 150 loans with a value of around £1m outstanding at year end. Whilst, we accept that the two would never tie up exactly as some payments would be found not to be eligible, or some farmers may not have applied for a loan, this still seems like a bit of a difference. Would you be able to explain why the difference is so large please?

Secondly, we also received confirmation of the amount that remained outstanding in relation to the errors and duplicate payments as previously reported to PAPLS (para 70 of clearance draft). So, we now have that:
“In total, errors valuing £1.2 million were made, including duplicate payments, of which £0.9 million has been recovered” .

We note from the loans registers you provided that the overall amount of errors/duplicate payments covering all loans schemes appears to be more than this. So, would we be more accurate saying “errors relating to 2016 BPS loans” (or words to that effect).

I appreciate you are very busy, but I would appreciate it if you were able to get back to me within the next day on this.

Many thanks,

Morag

Morag Campsie
Audit Manager
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1748 **M:** [Redacted text]**E:** mcampsie@audit-scotland.gov.uk
www.audit-scotland.gov.uk

**26.	FOI_17_01615 - 201706081719 - FAO auditor general**

From: Mitchell E (Elinor)
Sent: 08 June 2017 17:19
To: cgardner@audit-scotland.gov.uk
Cc: [Redacted text]Watson AA (Andrew); Cabinet Secretary for the Rural Economy and Connectivity; DG Economy; [Redacted text]; Morag Campsie (MCampsie@audit-scotland.gov.uk); Mitchell E (Elinor)
Subject: FAO auditor general

Dear Caroline

Please find a letter from me summarising the points we that you discussed with the Cabinet Secretary yesterday.

Kind Regards

Elinor

Elinor Mitchell

Elinor Mitchell
Director for Agriculture and the Rural Economy
Scottish Government
Tel 0131 244 7978

[LINK TO DOC008]

27. FOI_17_01615 - 201706140900 - FW FAO auditor general

From: [Redacted text]
Sent: 13 June 2017 16:47
To: Mitchell E (Elinor)
Cc: [Redacted text] Morag Campsie
Subject: RE: FAO auditor general

Dear Elinor

Please find attached a letter from Caroline in relation to the recent discussions on our CAPs report. A hard copy has also been posted today.

Many thanks
[Redacted text]
[Redacted text]Executive Assistant to Caroline Gardner, Auditor General for Scotland
Executive Assistant to Fraser McKinlay, Controller of Audit & Director of Performance Audit and Best Value
Executive Assistant to Antony Clark, Assistant Director Performance Audit and Best Value
Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1617 **M:** [Redacted text]**E:** [Redacted text]
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[LINK TO DOC009]

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AUDITOR GENERAL

Elinor Mitchell
Director Agriculture and Rural Directorate
Scottish Government
Saughton House
Broomhouse Drive
Edinburgh
EH11 3XD

13 June 2017

Dear Elinor

Thank you for your letter dated 8 June 2017. It was good to have the opportunity to speak to the Cabinet Secretary last week. I understand you received your embargoed copy of the final report yesterday, in advance of publication on Thursday of this week. I recognise and appreciate the work of you and your team to support the audit process.

I remain of the view that it is important to produce the update for Parliament now, so that the Public Audit and Post Legislative Scrutiny Committee has the opportunity to consider the report before the summer recess. It also gives an update at an important time of the payments process. The report sets out my judgement on the progress that has been made since my last report in 2016. I understand that our teams spoke again after our call with the Cabinet Secretary and I am satisfied that we have fully and carefully considered any additional evidence received. We have ensured that some of the judgements in the body of the report (particularly in Part 2) are more clearly reflected in the key messages. That said, it appears from your letter that we still have different views as to the extent of the progress that has been made.

Thank you again for your work in supporting the audit process.

Yours sincerely

Caroline

Caroline Gardner
Auditor General for Scotland