Scottish Social Services Council (SSSC)

External Audit Annual Report to the Accountable Officer and the Auditor General for Scotland for the financial year ended 31 March 2018

Final Report – November 2018

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Our audit at a glance

We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.

Materiality has been updated based on the unaudited 2017/18 financial statements to £330,000 (1.5% of gross 2017/18 expenditure).

Performance materiality is £248,000 and we have reported to management everything identified over £16,500 (5% of materiality).

Significant audit risks are: management override of controls; and the risk of fraud in revenue and expenditure as set out in International Auditing Standards (ISAs UK) and Practice Note 10.

Our risk assessment remained unchanged and we did not identify any adjustments in these three areas in our work.

An audit underpinned by quality

We have built on our relationship with SSSC management during the year and this has ensured an efficient audit process to allow for the audit to be concluded on a timely basis. Our audit opinion for the financial year 2017/18 is unqualified.

Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information and good supporting working papers. We thank management for their support and assistance during our work

A wider scope audit for SSSC, as set out in our plan, was considered not appropriate. However we have considered your financial arrangements and future direction. As part of our year end testing we identified potential risks to SSSC in respect of the wider ICT project, and the ending of the shared service for ICT with the Care Inspectorate. We explore this further in our report raising a number of recommendations for management to agree. This would allow for the governance of the wider shared services between SSSC and the CI to be strengthened, and greater monitoring of the ICT costs alongside anticipated benefits from the ICT investment.

Contents

Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of SSSC's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of SSSC as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland, and also supported with any technical queries.

Lastly we are committed to audit quality. We shared the Audit Scotland Audit Quality Annual Report at the September Audit Committee and in addition to the financial statements audit we shared good practice on the front end of the SSSC accounts.

Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to Lorraine Gray as SSSC Accountable Officer, in respect of her role as set out and agreed with Scottish Ministers. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented as a draft to the SSSC Audit Committee on 26 September 2018. The SSSC Council considered the annual report and accounts on 24 October 2018 and thereafter the Accountable Officer signed the financial statements. During September and October 2018 we had a number of discussions with management in respect of the ICT project which resulted in a number of recommendations for management which are within the action plan appendix. Following agreement with the Accountable Officer our report was finalised in November 2018.

We would like to thank SSSC management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

Structure of this report

As set out in our Audit Plan (February 2018) we consider in accordance with the Audit Scotland Code of Practice that SSSC is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of SSSC's arrangements as follows:

The Financial Statements Audit – Section 2

Financial arrangements and future direction – Section 3

ICT and shared service arrangements – Section 4

Our Opinion

For the financial year ended 31 March 2018 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of SSSC
- Other prescribed matters (which include the audited information in the remuneration report)

The audit process

We received a complete set of financial statements on 2 July 2018 including the performance report, strategic report and governance statement.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the audit was efficient.

We identified no unadjusted differences to report to the Audit Committee and the Council.

During the course of the audit it was noted that, due to the actual asset returns not meeting the actuaries estimation, the defined benefit net pension liability were materially understated. Management obtained a revised actuarial valuation and adjusted the net defined pension scheme liability.

We also noted the reclassification of a contingent liability to a provision.

We identified minor disclosure enhancements and these have been reflected in the financial statements.

The financial statements audit

Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in February 2018. Our materiality calculations, set out in our plan, were based on the audited 2016/17 financial statements, this has been updated to reflect the unaudited 2017/18 financial statements. Overall materiality has been set at £330,000 (1.5% of gross expenditure) and performance materiality is set at £248,000. (75% of materiality). We report to management any audit difference identified over £16,500 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in income and expenditure) is set out on page 7.

Internal control environment

During the year we sought to understand SSSC's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls. In particular placing reliance on the work of Audit Scotland in their role of Scottish Government external auditors (key financial controls May 2018)
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Scott-Moncrieff, SSSC's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and all reports receiving substantive assurance.

The opinion of internal audit for the year was reasonable assurance, which is consistent with prior year.

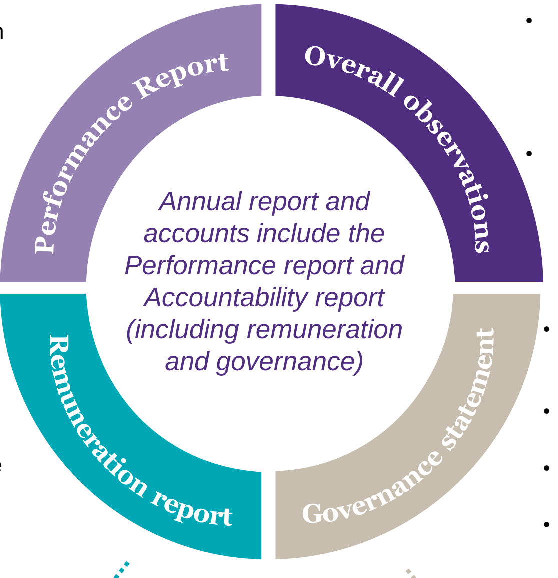
The findings of internal audit do not disagree with our knowledge and understanding of SSSC as an organisation.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

Performance Report

- The performance report is in line with our understanding of SSSC.
- The Accountable Officer's statement is detailed
- Risks are aligned to SSSC's internal risk reporting



Overall observations

- SSSC should to look at the "front end" of the Annual Report and Accounts to ensure it tells the story of SSSC as an organisation including strategic priorities, risks and challenges and opportunities.
- There is further opportunities to continue to focus on the outcomes of SSSC as an organisation and continue to make use of graphics as appropriate.

Remuneration Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder
- The senior managers reflected in the report have been correctly identified in accordance with FReM

Governance Statement

- As required by the FReM the Governance statement is included in the Accountability report
- No material issues of governance in year that are required to be reported
- The governance statement is in accordance with the FReM
- The statement is supported by individual assurances to the Accountable Officer over internal controls

Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

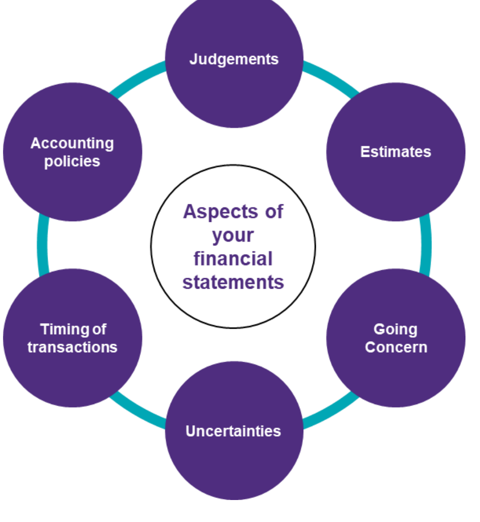
SSSC's **accounting policies** are consistent with the FReM and are unchanged from prior year.

Overall the SSSC accounts are considered simple accounts with few areas of **estimate or judgement**.

In terms of **uncertainties,** there were contingent liabilities in the draft financial statements for an employment tribunal (£0.078 million) and potential exit costs in relation to the Digital Transformation projection (£0.700 million). Both of the aforementioned contingent liabilities were adjusted for in the audited financial statements with the outcome of the employment tribunal known as at August 2018, resulting in the creation of a Provision for £0.025 Million and no provision in the accounts due to ongoing discussions related to exit costs and uncertainty on the value and the timing of any payment.

In relation to the audit risk of fraud in respect of expenditure and income, we tested SSSC's cut of arrangements in particular (**timing of transaction**) and identified no issues in accruals or prepayments which would indicate potential fraud.

There was **a post balance sheet** event in relation to the outcome of the employment tribunal as discussed above.



Finally SSSC, as set out in the performance and accountability reports, consider themselves a **going concern**. They have an agreed budget with the Scottish Government for 2018/19 and have a Strategic Plan, which covers SSSC's three-year vision and outcomes from 2017 to 2020 and Financial Strategy 2018-19 to 2024-25, although only receive a one year budget settlement.

Given SSSC's role as the regulator for the social service workforce in Scotland, their role is set out in Scottish legislation and we have no reason to believe this legislation will change. On this basis we agree with managements assertion they meet the going concern criteria.

Identified audit risks and our conclusions

Within our annual external audit plan we identified **significant audit risks** and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue	Risk of fraud in expenditure	Management override of controls
The Risk	As set out in ISA 240, there is a presumed risk that revenue may by misstated due to improper recognition of revenue. Grant Funding from the Scottish Government is well forecast and agreed directly to funding award letters and is therefore inherently lower risk of fraud. Our presumed risk focuses on fees and charges We consider the risk to be prevalent around the year end and therefore focus our audit work on transactions around the year end.	Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in Practice note 10 (revised) which applies to public sector entities.	As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. override of controls is present in all entities.
Our planned response	• Walkthroughs of the controls and procedures around material income streams and validation of key controls where appropriate • Agree income in year to supporting receipts/invoices/cash • Consider income cut off procedures and substantive testing over pre and post year end balances • A focus on recoverability of balances at the year end	• Perform cut off at year end on pre and post year end transactions and recording • Walkthrough of the key expenditure controls in place • Regularity – Expenditure incurred in accordance with the type/nature of SSSC as an organisation	• A focus on understanding how/where management override of controls may occur • Review of the controls over journal entries • Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies • Reviewing unusual and/or significant transactions
Our Conclusions	• Our walkthroughs did not identify any significant control deficiencies within the revenue processes. • Our testing did not identify any issues over the completeness and accuracy of income. • Our testing of cut-off confirmed income transactions were treated in the correct period. • Our testing of grant income and expenditure confirmed that spending is in line with the conditions of the grant as set out in the award letters.	• We did not identify any incorrect recording or classification of operating expenditure in the annual accounts based on our substantive audit testing. • Our testing of cut-off identified transactions sampled were treated in the correct period. • Our testing confirmed expenditure recorded in the annual accounts was incurred in accordance with the purpose and nature of SSSC as an organisation and in accordance with relevant laws and regulations.	Given the nature of SSSC's activities, the key accounting estimate is the contingent liabilities. We have reviewed contingent liabilities at the year end and these were adjusted for to consider the outcome of an employment tribunal and the position of the Scottish Government around the exit costs. We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals during the year, and targeted large and/or unusual journals. We noted no issues from our testing. SSSC use the Scottish Government accounting system (SEAS) We have obtained assurance over these arrangements through the report provided by Audit Scotland over the SEAS system, in their role as external auditor for the Scottish Government. Through our substantive audit testing, we did not identify any significant or unusual transactions that are out with the normal course of business.

Other key areas of the financial statements

As part of our audit there were **other key areas of focus** during the course of our audit. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude.

Overview of other areas of audit focus identified at planning and our proposed approach

Pension scheme liabilities

The Risk

SSSC participate in the Tayside Superannuation Fund defined benefit pension scheme. SSSC recognises its share of the defined benefit pension scheme assets and liabilities. These are valued through an actuarial valuation. As at 31 March 2017 SSSC recognised a net pension liability of £10.168 million.

While we have no underlying concerns around the historic accounting treatment, given the scale of the liability recognised and level of judgement in the assumptions used in the actuarial valuation the pension scheme liability is an area of increased inherent risk.

Management obtain an independent actuarial valuation to support the year end balance and we have no underlying concerns around the basis of the approach adopted in previous years.

Our response

- Review of accounting treatment adopted by SSSC for post employment benefits and confirm that it complies with the FReM and IAS 19: *Employee benefits*.
- Confirming that the valuation is consistent with the actuaries' valuation and that the actuarial assumptions underpinning the valuation are reasonable and reflective of SSSC's circumstances.

Our conclusion

- We have confirmed that the accounting treatment adopted by SSSC is in line with the FReM and appropriate.
- We have confirmed the numbers and disclosures are in line with the updated actuarial assumptions, however the numbers were subject to a late adjustment.
- The SSSC share of defined benefit pension scheme assets and liabilities is estimated through an annual actuarial valuation. The actuarial valuation provides an estimate of the SSSC future net pension obligations as at the balance sheet date. The scheme assets are estimated by the actuary based on market valuations as at 28 February 2018 with forecast position based on expected return on investments to 31 March 2018. Due to actual asset returns not achieving the actuaries estimation, within the draft accounts, the SSSC share of the total Tayside Pension Fund assets were overstated by £0.361 million, resulting in understatement of the net pension liability.
- Management obtained a revised actuarial valuation to reflect actual asset values held at 31 March 2018 and the financial statements were adjusted accordingly (see Audit Adjustments, page 12).

Financial arrangements and future direction

Key observations		
SSSC's financial position	The main financial objectives of SSSC are to continue to meet its operational requirements, and minimise the risk of SSSC being unable to meet its strategic objectives as a result of insufficient resourcing. SSSC's budget is funded mainly by a mixture of grant in aid, specific grants from the Scottish Government and fees paid by registrants. In 2017/18, SSSC had total comprehensive net expenditure before government funding of £11.100 million and total grant funding of £16.423million. SSSC achieved a net surplus of £0.397 million against a budgeted deficit of £0.270 million, showing an underspend of £0.692 million. The Statement of Financial Position shows a net liability position of £3.729 million which has reduced from £9.027 million in 2016/17, with the majority of which is attributable to the significant decrease in the pensions liability. A significant proportion of SSSC's expenditure in 2017/18 relates to staff costs (£11.045 million) and, similar to other public sector entities, the pension liability is a material figure. However, it is not expected that the Scottish Government will withdraw support for the pension liability.	Whilst a relatively simple budget setting exercise it does raise risks around future financial sustainability and ability to invest in future activities.
Finances – The future	The Scottish Social Services Council has a Draft Financial Strategy 2018-19 to 2024-25 which was considered by the Resources Committee at its meeting in June 2018. The financial strategy provides a framework to enable the SSSC's resources to be managed and prioritised effectively. This will help to ensure the SSSC's viability and sustainability. The outline models that combine the current 3 year budget with the extended forecasts to 2024/25 show a funding deficit of £0.895 million in 2024/25. There are many variables that could affect this figure e.g. if there is a 3% reduction in assumed grant in aid from 2021/22 onwards, the deficit increases to £2.643 million in 2024/25.	The financial constraints are recognised and SSSC are producing a long term financial plan and continue to discuss with Government.
SSSC Vision 2020	The SSSC has a Strategic Plan, which covers SSSC's three-year vision and outcomes from 2017 to 2020. The SSSC Vision focuses on how their work allows the people of Scotland to rely on social services being provided by a trusted, skilled and confident workforce. SSSC Vision highlights their Strategic outcomes; The right people are on the Register; SSSC standards lead to a safe and skilled social service workforce; SSSC resources support the professional development of the social service workforce; SSSC stakeholders value our work	We will consider the 2020 strategy and the progress during our 2018/19 external audit.
Workforce	SSSC's workforce is its largest cost. Between 2017-2020, registration numbers are expected to rise, which will put additional pressure on SSSC's resources and workforce. Given that 50% of the cost base is staff costs, there is little room for efficiency savings to be made, particularly as staffing needs to increase in order to maintain capacity to provide services. In addition, a pay rise of 1% has been budgeted for 2018/19. Each 1% increase in the pay award to staff costs an additional £0.105 million Workforce planning is an ongoing process that an organisation carries out to match its workforce to its desired organisational objectives and outcomes. The SSSC needs to understand its current staff profile and how it is currently deployed, identify the mix and numbers and types/skills of staff needed in the future and develop plans to move towards the desired workforce shape and size. An update of the current workforce plans will be carried out in 2018/19.	We will continue to monitor the workforce plans for SSSC during our 2018/19 external audit.
Other SSSC Matters	SSSC are currently implementing a digital transformation programme based on their Digital Strategy, to help facilitate the streamlining of their work. SEQUENCE has been an important contributor to the efficiencies regime so far and the addition of case management functionality means SSSC should be able to anticipate further efficiencies and business improvements.	SSSC Council should continue to develop solutions to the challenges they face.

Key observations

Policy Forum

SSSC have established a Policy Forum, set out in the scheme of delegation. This is a forum and not a formal committee of the Council and therefore has no decision making abilities. Membership of the Forum is restricted to Council members only.

The forum meets as and when required but typically quarterly, with sessions held in private. The Chair of the Policy Forum is the convener of the Council and updates from the policy forum discussion are reflected as a short update paper on the Council agendas. The initial purpose of the forum was to focus specifically on new developments which would impact on SSSC policy.

We would recommend that Council review the need for the policy forum in light of the continuing need for public sector organisations to review the openness and transparency of governance and decision making. In particular that the subject matter and discussions at the forum are in line with the initial objectives of the forum, and that the forum contributes to the overall governance arrangements in place within SSSC. Action Plan 1.

ICT arrangements and shared services

Key observations

Background to shared services

The SSSC is based in Dundee and shares office accommodation with OSCR and the Care Inspectorate. When the SSSC was first established it was a small organisation which has grown over time and now employees 260 FTE employees. Recognising the relative size of SSSC, SSSC share a number of services directly with the Care Inspectorate (CI).

Total cost to SSSC of these shared services is circa £678,000 per annum, and services that are shared include financial services, joint posts between the CI and SSSC included the Director of Corporate Services and the Head of Finance and Shared Services, HR services and ICT (up until 2018/19). The Convener of the SSSC Council is a member of the CI Board and vice-versa via a reciprocal arrangement put in place by Scottish Government.

The shared services between CI and SSSC is governed by a service level agreement (SLA). In 2014/15 a shared services strategy paper was produced which was presented to the Resources Committee, alongside a shared services action plan. The strategy is a high level overview of the arrangements and the benefits to both organisations, with the action plan giving an overview of planned governance arrangements.

The planned arrangements centered on quarterly meetings between the respective Accountable Officers. Arrangements in practice over time evolved into more informal, operational rather than strategic arrangements between the two organisations and as a result there were limited formal reporting to the SSSC Council or Resources Committee on the performance of the shared services, and no escalation process to satisfactorily resolve issues and agree a practical way forward. This lack of formal structure to the SLA and the subsequent monitoring, including lines of communication, meant that when the ICT issues and risks emerged during 2017/18 and into 2018/19 formal escalation through the two accountable officers did not occur in order to make the CI aware of the full impact on the SSSC digital strategy.

The shared service agreement

Given the issues that have arisen during 2017/18 and into 2018/19 related to the ICT shared services we would recommend that SSSC and the Care Inspectorate progress quickly with an independent review of all other service level agreements covering the sharing of services.

As part of this independent review clear performance measures should be agreed, the arrangements for reporting and monitoring the sharing of services be formalised and structured governance arrangements established including where decision making rests, alongside the Accountable Officer responsibilities for both organisations. Where potential difficulties are identified, a clear process for escalation should be in place which are recorded and understood by both organisations. One of the key principles of the wider public sector in Scotland is to continue to look at opportunities to share services to demonstrate value for money alongside ensuring arrangements are efficient and effective. Now is a good time for SSSC to re-look at the arrangements, alongside the value for money and how the arrangements support SSSC in delivering its strategic objectives. Action Plan 2.

Key observations

Financial impact on ending the ICT shared service

In 2017/18 the Convener of the SSSC Council verbally set out a commitment to the Chair of the CI Board that the decisions taken by SSSC in respect of the ICT shared service would not result on an adverse financial impact on the CI. This was during an informal meeting between the relevant parties and was an action by the Convener to move the discussions forward.

It is noted in discussions with management that although this commitment was made as a gesture of good will, the Convener does not have the delegated authority to make a formal decision and needs sponsor department approval.

Discussions are ongoing between SSSC and the CI around the implications for the CI on the termination of the shared service agreement. For example there may be potential costs in the fact that the CI ICT service may now be over staffed for the activity required, and multi-year contracts which were entered into, on the basis CI were providing services to CI and SSSC.

We recommendation that discussions between the SSSC and CI are concluded and what if any additional financial settlement is likely, taking into account the service level agreement, what the cost is to SSSC and how this will be subsequently paid. Action Plan 3.

ICT Contract – monitoring spend

From the start of the project the ICT specification has changed as certain ICT technical solutions were found to not be possible causing the project scope to be amended, and therefore as the scope widened additional ICT costs incurred.

The ICT project has evolved over time with certain decisions taken that impacted on the ICT shared service – the rolling out of Office 365 and need to invest in ICT equipment (November 2017), that SSSC were unable to use the CI Active Directory (2018), the need to establish a separate SSSC network (March 2018) and then the separation of the ICT support services, creating a separate SSSC ICT Team (August 2018).

The overall cost of the ICT and digital transformation project to SSSC is estimated at £4million. Funding towards these costs is being provided via Scottish Government funding. Some overspends have occurred in the project to date which we understand will be met by savings achieved elsewhere in the SSSC budget. The budgeted expenditure for 2018/19 was £1.5million. At as at August 2018 actual expenditure was in excess of £3million. This is due to certain planned ICT activity in 2017/18 slipping into 2018/19 alongside some delays in the project through hosting and maintenance agreements, additional project management and specialist support costs which may not have been known and are arising as the project progresses.

We recommend that management re-profile the budget for the ICT project to ensure all costs are captured and an accurate phasing of the costs is agreed including which costs are recurring compared with one off costs. This analysis should then be built into the work that is due to take place quantifying the financial benefits to SSSC of the ICT spend. Action Plan 4.

Key observations

ICT – Articulation of the benefits

SSSC has a high level digital strategy (2017 – 2020) which focuses on the digital needs of the organisation up to 2020. Over the last two years the ICT investment has evolved, with a key element now being the implementation of the new Case Management System (CMS) alongside the fact that the sequence system contract was ending, and the CRM system would no longer be supported by Microsoft.

Following a procurement exercise in late 2017, supported by Scottish Government, the selected supplier advised that an upgrade to current arrangements was not possible, and a new system would be required to be built. At this point a decision was taken to review the case management part of the sequence system, and the SSSC team via the Programme board felt that the functionality within sequence for Case management would not be suitable and provide the functionality required, and a separate decision was to invest in a new case management system. Linked to the investment decisions it was noted that the underlying SSSC IT infrastructure would need to be modernised, as the new system would not run off old ICT equipment.

We note ICT budget analysis updates have been provided within routine budget monitoring papers to the Resources Committee and Council, in particular when seeking approval of the 2018/19 budget. In addition, in March 2018 a paper was presented to Council outlining the decision on network separation and then in August 2018 a paper setting out some options on future ICT support. The paper in August did not set out a full oversight of all ICT costs incurred, with some of this detail being provided to the policy forum.

As noted previously the ICT project developed over time, with the wider changes being agreed once it became apparent that the re-contract of the sequence contract was not going to meet SSSC wider requirements. However, we have been unable to locate a clearly articulated business case covering the wider ICT project (the complete planned spend), which we would have anticipated as being in place to set out the respective options over ICT, the costs and benefits and risks. There is a lack of articulation over what the ultimate benefits of the £4million investment will be to SSSC, including outcomes and how the investment will lead to quantifiable efficiencies internally within SSSC and importantly the users of SSSC services.

We note through discussions management are in the process of gathering data that will be used to measure the effectiveness and outcomes of the complete ICT spend, including comparing the old and new system from a user perspective for example including time taken on processing, electronic tasks vs manual paper based tasks.

An initial benefits paper was presented to the Council in October 2018. This captured how data will be gathered and reported but does not set out a consideration of the quantifiable aspects of the project in particular total spend and anticipated cost savings. Action Plan 5.

Key observations

ICT – key decisions

As SSSC continued to explore its ICT project and procure a supplier and services during 2017/18 certain ICT technical issues arose which impacted on decisions and the ability for certain parts of the planned ICT development to continue, based on the current ICT support services offered by the Care Inspectorate via shared services. In summary key points/decisions included:

- SSSC first establish a Sequence project board and this then evolved into the Digital Transformation board. The remit focused on ICT procurement, operational and technical arrangements. The board is chaired by the Accountable Officer and it is noted that decisions will be reached on consensus, and that the Accountable Officer is the decision maker and will determine what decisions need to go to Resource Committee. The remit is not explicit on what would be escalated, this is determined by the Accountable Officer. The Director of Corporate Services was a member of the programme board before the Head of Shared services took on this role from September 2017.
- A high level risk register is maintained for the project and updated at Programme board meetings. From review, much of the risks captured were operational ICT technical risks.
- The Programme board in December then January 2018 appeared to discuss a separate active directory for SSSC and acknowledged a potential reduction in the shared service with Care Inspectorate, with no further detail/narrative captured in the minutes. This potential reduction in shared services and the decision to move to a separate activity directory at this stage was not fully costed. A paper set out what services would remain with Care Inspectorate or move to SSSC. This was a technical specification listing.
- A paper was taken to the March Council outlining the need to separate the ICT network from Care Inspectorate. This paper outlined that from the perspective of SSSC a solution on the Active Directory could not be reached and in order to progress with the SSSC plans the only option was to create a separate network.
- Ultimately the lines of reporting were unclear, particularly when there may be a differing of opinion or decisions taken by one organisation, which would impact on the other. The Head of Shared service is ultimately an employee of the CI, working for the SSSC on a percentage of time basis. There was an assumption by SSSC that as the Head of Shared services was attending the Programme board they would update relevant individuals on the CI organisation, but this was never formalised and from a review of the relevant papers and minutes available the exact impact on both organisations lacked clarity.
- Due to unclear reporting lines the Convener of SSSC and the CI Board Chair were formally made aware of the ICT issue just before the March meeting, including the potential impact on both organisations. We note that the head of shared services discussed the emerging issue as a private update at the CI Board late February.
- Agreement at March Council that a paper would go to Resources Committee on future ICT support arrangements. A future paper then went around the proposal to recruit 2 posts to ICT. The wider ICT support arrangements went in a paper to the Council in August 2018.
- Presentation to the Policy Forum in July 2018 on various decision points and overview of the arrangements
- Paper to August Council 2018 meeting. Based on the option appraisal the Council took the decision to create its own SSSC ICT support arrangements. The paper outlines that Resources already gave approval for 2 ICT posts which have been filled, so for additional ICT support the ask was for a further 2 individuals and approval to incur capital spend of up to £100,000 should this be required. Capital approval requires separate approval so by asking the Council to approve, should any issues arise, the project could still progress at the required pace.

Key observations

Additional external audit observations

Based on our review of various documentation, we would make the following additional observations:

Governance structures: The project was initially managed by the Sequence project board which then evolved into the Digital Transformation Board. Updates to Resources and Council did appear sporadic and were often information only items. The project board dealt with the ICT operational/Technical issues and wider strategic issues and were chaired by the Accountable Office with senior leadership attendance. There was no clarity over when the technical issue (network and Active Directory) had larger implications beyond the ICT project how this should be escalated or considered.

Council papers: In March the paper was presented related to the separation of the ICT in August 2018 an updated report was presented to the Council. This specifically related to options for future ICT support. It contained 4 options which had been assessed and scored by management. From reading the paper, and the options assessment the preferred option at this stage was SSSC creating its own ICT support service. Which was what the Council approved. In both cases the papers prepared in our view could have been clearer, supported by more detailed financial and qualitative assessments and clearer on what decisions had been taken previously.

Awareness: We understand the Chair of the CI board first became formally aware of the issues and decision taken just before attending the March 2018 Council meeting. Concerns were raised in email correspondence by the Head of Shared Financial Services in early March around the wider implications and risks. These were raised with the Accountable Officer, and the Accountable Officer took the decision to discuss the position with the March Council. Over the period of time both CI and SSSC had differing views and opinions around the resolution of the difficulties.

ICT support: The ICT digital transformation lead for the project was an SSSC contractor and oversaw the project up until May 2018 when they left. They were subsequently replaced by another contractor. The replacement contractor left SSSC in October, and has now been replaced with a third contractor. Given the costs associated with the ICT Programme and the importance of delivery to the SSSC digital strategy we recommend SSSC management review the overall project management arrangements to make sure they continue to be fit for purpose and sufficient ICT support and guidance is being provided to manage the ongoing delivery risks. Action Plan 6.

Appendices

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

There were a number of minor (not material) adjustments between the first set of unaudited accounts we received to audit and the final version. These were primarily in relation to late allocation adjustments between the draft trial balance. The adjustments made are detailed below;

Item		Dr (£'000)	(Cr) (£'000)	Description
1	Contingent Liability (Tribunal)	78		*Contingent liabilities for an employment tribunal (£0.078 million) and potential exit costs in relation to the Digital Transformation projection (£0.700 million) were adjusted for in the audited financial statements with the outcome of the employment tribunal known as at August 2018, resulting in the creation of a Provision for £0.025 Million and the potential exit costs reducing to nil due to the Scottish Government absorbing these costs. This was changed as more information became available not as a result of audit findings.*
	Expense		(78)	
2	Provision (Tribunal)		(25)	
	Expense	25		
3	Contingent Liability (Exit Cost)	700		
	Expense		(700)	
4	Other operating income (Pension reserve)	361		*Adjustment to recognise defined benefit pension scheme net liability actuarial estimation difference.*
	Defined benefit pension liability		(361)	

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements. There were no material/significant disclosure misstatements identified we wish to bring to your attention.

Action Plan 2017/18 audit

Finding and recommendation	Agreed management response
Action Point 1: Policy Forum We recommend the purpose of the policy forum should be reviewed in light of continuing to ensure SSSC governance arrangements are as open and transparent as possible and given all Council members attend the scope of the Forum does not grow from the intention in the scheme of delegation.	**Management comment:** We will review the Policy Forum terms of reference and reporting line during 2018/19 to ensure that the arrangement is still appropriate and aligned with ensuring our arrangements are open and transparent. **Action owner:** Chief Executive **Timescale for implementation:** Reviewed by end of March 2019
Action point 2: Undertaking a formal independent review of the shared services agreement SSSC should seek to have an independent review of the overall governance of the shared services arrangements. In particular looking to consider the use of service level agreements and introducing more formal performance monitoring and governance to ensure the arrangements deliver what is expected and continue to align to the strategic direction of SSSC, and demonstrate value for money.	**Management comment:** We have started to consider this following on from an initial independent consultancy review in respect of the ICT shared service and lessons learned. With the Care Inspectorate we will agree an independent review of the wider shared services arrangements reflecting the comments noted by external audit. We will look to strengthen the clarity and decision making in respect of shared services and ongoing service monitoring. **Action owner:** Chief Executive **Timescale for implementation:** 31 March 2019
Action point 3: Payment to Care Inspectorate SSSC should work with Care Inspectorate to agree if a final payment is appropriate and required, and the budget implications for SSSC, taking into account value for money and need for a resolution which reflects SSSC requirements.	**Management comment:** This matter will be discussed and determined by the Resources Committee in December 2018 **Action owner:** Chief Executive/Resources Committee **Timescale for implementation:** January 2019
Action point 4: ICT contact monitoring Following the ending of the shared service with Care Inspectorate management should take the opportunity to re-look at the budget for the ICT project and the phasing of the project. This should reflect all known costs including one off costs. This should then be reviewed in respect of changing ICT needs and overall project benefits anticipated to ensure decisions continue to represent value for money and are procured in the best manner.	**Management comment:** This work is ongoing. Budgets are being reviewed and costs reported on a recurring/non-recurring basis, alongside the phasing of costs. The overall ICT budget and variances will continue to be reported in the budget updates to Resources Committee **Action owner:** Chief Executive/ Head of Shared Services **Timescale for implementation:** 31 March 2019

Action Plan 2017/18 audit

Finding and recommendation	Agreed management response
Action plan 5: Benefits Realisation The paper to October Council 2018 started to articulate the benefits to SSSC of the ICT project. These should be compared to the cost of the project, alongside costed efficiencies to demonstrate good use of public money/value for money.	**Management comment:** This is planned as part of the benefits realisation project that is ongoing. An initial paper was taken to the Council in October and we will build on the detail in that, reporting back to full Council. **Action owner:** Chief Executive **Timescale for implementation:** 31 March 2019
Action plan 6: ICT Support SSSC should review their ICT support to oversee the delivery of the project and ensure that there is continuity to oversee and manage the risks as they arise, recognising the reliance on ICT contract staff, alongside the cost of using contractors.	**Management comment:** The Council approved the permanent appointment, at a senior level, to oversee the delivery of the digital project. This recruitment exercise will commence in due course, seeking to fill the permanent post. **Action owner:** Chief Executive **Timescale for implementation:** by 31 March 2019

Follow up of 2016/17 recommendations

Recommendation from 2016/17 audit	Agreed management response
Year end accounts timetable As in previous years we undertook our external audit work over the first three weeks of July. The Accounts are not approved by the Council until October so there is either scope to move the audit process to later on, or for the Council to sign the accounts earlier. This would be a decision for Management and the Audit Committee to consider. Risk: A subsequent event happens post audit and before signing which could require substantial changes the accounts. The previous year accounts are still being considered 6 months into the new financial year, and resources directed to audit could be directed to future year budget setting	**Management update:** Management and the Audit Committee considered the audit timetable within the context of when the Council approve the accounts and agreed that the timetable should remain the same. **Action owner:** Head of Shared Service **Timescale for implementation:** Complete.
Annual report The performance analysis contains a lengthy narrative around performance, which are difficult to interpret and understand. Including a snapshot of performance and key statistics/performance outcomes during the year would provide the users of the accounts with an overview of performance and enhance understandability. Risk: The overall readability and understandability of the financial statements is diminished, as it is difficult to interpret performance against targets and strategic outcomes.	**Management update:** We have made progress in 2017/18 to bring the document in line with the FREM. We are working towards a more summarised document for 2018/19 and plan to include more infographics and data visualisation **Action owner:** Head of Performance and Improvement. **Timescale for implementation:** On-going.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	14,700
Pooled Costs	3,580
Contribution to Audit Scotland costs	900
Contribution to Performance Audit and Best Value	0
2017-18 Fee	**19,180**

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £19,180

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at SSSC.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for SSSC this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in July 2018.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **SSSC's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with SSSC to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Communication of audit matters with the Accountable Officer

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity **We are independent of SSSC and have not identified any conflicts of interest**	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence **We have not incurred any non-audit fees during the year and no threats to independence identified**	•	•
Significant matters in relation to going concern **No significant going concern matters identified**	•	•
Views about the qualitative aspects of SSSC accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures **Set out in the Financial statements section of our report**		•
Significant findings from the audit **No significant findings from our audit**		•
Significant matters and issues arising during the audit and written representations that have been sought **Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.**		•
Significant difficulties encountered during the audit **No difficulties encountered**		•
Significant deficiencies in internal control identified during the audit **None identified**		•
Significant matters arising in connection with related parties **None identified**		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements **None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.**		•
Non-compliance with laws and regulations **None noted**		•
Unadjusted misstatements and material disclosure omissions **None noted. Minor disclosure amendments only and these were not material in nature**		•
Expected modifications to the auditor's report, or emphasis of matter **None, an unqualified opinion**		•

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to SSSC Management and the Audit Committee.

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