Disclosure Scotland

Annual report on the 2012/13 audit

AUDIT SCOTLAND

Prepared for Disclosure Scotland and the Auditor General for Scotland

November 2013

Contents

Key messages

2012/13

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed the key strategic and financial risks being faced by Disclosure Scotland. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified audit report on the financial statements for 2012/13.

During the course of the year, we reported on continuing reconciliation difficulties between the income recorded in the financial statements and cash banked and the potential impact this may have on the audit opinion should the position remain unresolved. Considerable effort was expended by finance staff in order to resolve these differences. This exercise identified a material difference in the previously reported 2011/12 outturn position which resulted in a prior year adjustment in the 2012/13 financial statements. A small difference continues to exist which has been accepted as reasonable.

We would like to acknowledge the effort invested by all staff into the review of the reconciliation difference. We have taken assurance from the increased ownership of the figures by Disclosure Scotland and also the level of understanding that staff now have of the overall process.

Financial position and use of resources

In 2012/13, Disclosure Scotland operated within the budget set by Scottish Ministers. Both income and expenditure increased during the year. This reflects the increase in demand for disclosure applications.

We had previously reported on issues surrounding the software and hardware developed to accommodate changes arising from the Protecting Vulnerable Groups (PVG) legislation. When the new PVG system went live in February 2011, there were significant performance and stability issues. These have continued to be addressed by Disclosure Scotland's operational partner and the PVG recovery plan is now in its closing stages. At this point the older legacy system will be decommissioned. The PVG system is now performing at a level that allows Disclosure Scotland to meet its performance targets.

Governance and accountability

In 2012/13 Disclosure Scotland had sound corporate governance structures in place, although we have commented that the Strategic Board only met twice during 2012/13. We are aware, however, that the new Chief Executive (appointed in January 2013) and the new chair of the Audit and Risk Committee (February 2013) intend to undertake a complete review of the governance arrangements. We examined the organisation's key financial systems underpinning the control environment and concluded that, with the exception of the cash reconciliation process, they operated sufficiently well for us to place reliance on them.

The governance statement included with the financial statements records the progress made by the organisation during the year and where the accountable officer takes his assurance from. Overall, we have agreed with the comments made in the governance statement.

Performance and best value

Disclosure Scotland has adequate arrangements for monitoring and reporting performance. In 2012/13 they met their public performance target of producing 90% of disclosures within 14 days. This is against the backdrop of continuing IT challenges.

Outlook

It is intended that all applications will be processed by the PVG system by Spring 2014. This is an important milestone and the organisation should then be able to focus on forward planning and developing the service.

The partnership agreement is due to expire in 2014 and planning for the new contract is currently underway. This affords Disclosure Scotland an opportunity to improve on the quality of the management and financial data currently being received from the operational partner.

A key risk facing Disclosure Scotland is the uncertainty surrounding the future market for basic disclosure checks. Discussions on the provision of a Basic Disclosure service which is currently undertaken on behalf of the Home Office for England and Wales are currently ongoing.

Introduction

1. This report summarises our findings arising from the 2012/13 audit of Disclosure Scotland. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year (Appendix A). In our report on the review of internal controls we make recommendations for improvements. We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of Disclosure Scotland.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Disclosure Scotland understands its risks and has arrangements in place to manage these risks. The Accountable Officer, with advice from the Audit and Risk Committee, should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to Disclosure Scotland and the Auditor General and should form a key part of discussions with the Audit and Risk Committee as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to the Scottish Parliament, stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.

5. This report will be published on our website after consideration by the Audit and Risk Committee.

6. The management of Disclosure Scotland is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report. We also review and report on the Scottish Government Consolidation Pack. This section summarises the results of our audit on the financial statements.

Audit opinions

10. We have given an unqualified opinion that the financial statements of Disclosure Scotland for 2012/13 give a true and fair view of the state of the body's affairs and its net operating cost for the year.

11. Disclosure Scotland is required to follow the 2012/13 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.

12. We also reviewed the governance statement and concluded that it complied with Scottish Government guidance.

Regularity

13. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Accounting issues

Accounts submission

14. We received the unaudited financial statements on 17 June 2013 in accordance with the agreed timetable and we completed our on-site fieldwork on 26 June 2013. The governance statement and annual report were submitted for audit review on 12 July 2013.

15. The working papers supplied were generally of a high standard and the staff provided good support to the audit team. However, the financial statements provided required several re-drafts during the course of the audit. In addition, a number of monetary adjustments were identified within the financial statements which were discussed with officers who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase income by £1.47 million and expenditure by £0.31 million. Net assets recorded in the statement of financial position increased by £0.85 million. The adjustments arose largely as a result of the re-calculation of the prior year (see paragraph 19 below).

Review of internal controls

16. We reported in our management letter (submitted in May 2013) that, with one exception, no material weaknesses in the accounting and internal control systems were identified which could result in a material misstatement in the financial statements.

17. The exception related to the fluctuating reported differences between the monthly cash-based figures of monies banked and the movement on debtors when compared to the transaction list totals for the month. We reported that, should this position remain unresolved and the amount remained material, there was a risk that the accounts would not show a true and fair view which was likely to result in a modified audit opinion on the 2012/13 financial statements.

18. Officers worked closely with Disclosure Scotland's operational partners to address the problem. As a consequence, the revised reconciliation between the systems recognises a number of reconciling items which are evidenced with appropriate back-up, and is now more fully understood by Disclosure Scotland staff and we were able to issue an unmodified opinion (as referred to in paragraph 10).

Prior year adjustments

19. *IAS 8 Accounting policies, changes in accounting estimates and errors* requires that financial statements which contain material errors should be corrected retrospectively in order to be IFRS compliant. As a consequence of the work undertaken by officers (see paragraphs 16-18 above) a material error was identified which resulted in the restatement of the 2011/12 financial position as recorded in the 2012/13 financial statements (income was overstated by £488,000 and expenditure was understated by £309,000). Full disclosure of this adjustment was included in the financial statements.

Events after the reporting period

20. *IAS 10 Events after the reporting period* require bodies to account for or disclose events, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. The management commentary refers to the cancellation, in May 2013, of the development of PVG Release 2 following a robust risk management process undertaken by management. As at 31 March 2013, work had already been undertaken on this development by the operational partner and the associated contract costs were accrued into

the 2012/13 financial statements. Appropriate disclosure has been made in the financial statements.

Income and trade receivables

21. Following a review of the income and trades receivables process there remain some outstanding differences. We consider the difference to be acceptable as there are legitimate reasons for these systems to differ due to the varying income recognition points within both the PVG and the legacy systems. However, further review is required to ensure that the financial systems provide the most accurate data and that Disclosure Scotland fully understands the processes and systems generating the data.

Refer Action Plan No. 1

Trade receivables (accrued income)

22. The financial statements include accrued income which is largely represented by the movement in debt outstanding in excess of 90 days. An element of this is due to Disclosure Scotland. The financial settlement with Disclosure Scotland should be adjusted to reflect the cash payment for these debts. As a result of the review of debtors and income referred to previously, it was identified that there had been limited recognition of these balances by both parties. The 2012/13 financial statements were adjusted to reflect the cash element due to Disclosure Scotland. Based on a review of the evidence provided, we considered that the accounts were not materially mis-stated due to the minimal amounts received in respect of these debts to date. However, further work should be undertaken to reconcile and confirm the amounts due to Disclosure Scotland and the consequent adjustment in the financial settlement.

Refer Action Plan No. 2

Protecting Vulnerable Groups (PVG) asset

23. To accommodate changes arising from PVG legislation, a programme of new software and hardware was developed, led by the Scottish Government. On 28 February 2011 the PVG scheme was implemented and the assets transferred from the Scottish Government to the Agency. The total cost of the assets transferred was £21.29 million (£1.56 million – hardware and £19.73 million – software). The estimated life of the asset is 5 years, which is in line with Scottish Government policy.

24. At the go-live date there were significant performance and stability issues which have continued to be addressed by Disclosure Scotland's operational partner who established and implemented a recovery plan. In 2010/11 the independent auditor's report, while not qualified, included an emphasis of matter paragraph, which explained the uncertainty surrounding the final outcome on the PVG recovery plan. This was in line with the requirements of auditing and accounting standards.

25. The PVG recovery plan is now in its closing stages and it is anticipated that it will be fully complete by autumn 2013. The system is now performing at a level that allows Disclosure

Scotland to meet its performance targets. In addition, we received assurances from the accountable officer that the asset is operating without significant defect which would affect the valuation recorded in the accounts.

Trades payables (accruals)

26. As noted above, the annual report refers to the cancellation of Release 2 of the PVG system development. As at 31 March 2013, work had already been undertaken on this development and the cost has been reflected in the 2012/13 financial statements. However, should any payment be made in respect of this work, this could be viewed as a constructive loss and will require to be appropriately reflected within the 2013/14 financial statements.

Refer Action Plan no.3

Outlook

27. There are no significant changes to the 2013/14 FReM that are expected to have an impact on Disclosure Scotland's annual financial statements.

Financial position

28. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

29. We consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

30. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

31. Disclosure Scotland is largely self-funding from fee income received for disclosure checks undertaken. The Scottish Government provides additional funding for specific purposes. The organisation is therefore required to work within its resource budget set by the Scottish Government as detailed in Table 1 below.

Table 1: Resource Budget

	Budget (£'000)	Actual outturn (£'000)	Under spend (£'000)
Net operating costs	3,340	2,286	1,054
Non Cash (depreciation)	4,880	4,293	587
Total Revenue	**8,220**	**6,579**	**1,641**
Capital	3,080	9	3,071
Total	**11,300**	**6,588**	**4,712**

Source: Disclosure Scotland annual report 2012/13

32. Gross operating costs during 2012/13 were £41.0 million with income of £34.5 million giving a net operating deficit of £6.5 million which was funded from the Scottish Consolidated Fund. This compares with a Scottish Government budget of £8.2 million.

33. The resultant underspend of £1.6 million was a result of a delay in scheduled work on PVG and other projects which will be proceeding in 2013/14. The capital underspend (£3.1 million) was due to the delay in delivering release 2 of PVG.

Budgetary control

34. Disclosure fee income was £34.2 million which was £2.1 million less than the agreed budget of £36.3 million. This under-recovery of income was attributable to the late introduction and take up of retrospective checks. Operating costs were £41.0 million, £2.6 million more than originally forecast. This increase in expenditure arose largely as a result of the accrual relating to PVG Release 2 (as discussed previously).

35. The results of our review of Disclosure Scotland's budget setting and monitoring arrangements were satisfactory. Senior management receive monthly monitoring reports and quarterly reports are provided to the Audit and Risk Committee. As recorded in the annual report, these arrangements will be considered further in 2013/14. We also noted that these reports continue to be developed by management in order to provide better quality information to members.

36. We are also aware of the demand-led nature of Disclosure Scotland's business and the importance of its management accounting and reporting arrangements to the financial management of the organisation. There remains an on-going need to monitor trends and developments as the pattern of business changes with time.

Financial position

37. The Statement of Financial Position shows a net asset position of £11.4 million at 31 March 2013 (net assets of £18.5 million (restated) in 2011/12). This reduction of £7.1 million reflects the depreciation of the PVG assets of £4.2 million and an increase of £3.9 million in trade payables which is largely attributable to payments due to Disclosure Scotland's operating partner.

Financial planning to support priority setting and cost reductions

38. Disclosure Scotland continues to underspend against its allocation from the Scottish Government. This is as a result of the on-going issues surrounding PVG system. It is expected this will be fully operational and all legacy systems withdrawn in 2013/14. This should allow Disclosure Scotland to move forwards and plan more effectively on a continuing basis.

Workforce planning

39. We noted in our management letter issued in May 2013 that there had been large increases in the levels of overtime and agency staff payments. We were advised that additional staff were required during 2012/13 in order to meet the demands of the business. In order to reduce the dependency on overtime and agency staff, up to 40 additional staff are to be employed with

the Scottish Government's agreement in 2013/14 on a fixed term basis. We acknowledge that agency staff and/or overtime will continue to be required to address the fluctuating demand.

Outlook

2013/14 budget

40. In the Budget Bill, Ministers allocated a 2013/14 revenue resource budget of £8.8 million. Disclosure Scotland is currently forecasting a year-end underspend of approximately £1 million against this allocation. Any capital expenditure will have to be met from Disclosure Scotland's resource budgets.

Financial forecasts beyond 2013/14

41. Looking forwards, work is now complete on the 2013 spending round which covers 2014/15 and 2015/16. Disclosure Scotland has been advised that the 2014/15 budget has been reduced by £1.4 million. We are aware that the Chief Executive is in discussion with the sponsor department regarding the budget reduction. The challenge remains to maintain service delivery and quality within reducing budgets.

Significant financial risks

42. Discussions on the provision of a Basic Disclosure service which is currently undertaken on behalf of the Home Office for England and Wales are currently ongoing. There is an intention that this work will be undertaken by the Disclosure and Barring Service at some point in the future. The gives rise to uncertainty about the future market for basic disclosures and may impact the current financial model which Disclosure Scotland uses. We will monitor developments in this area.

43. We have noted above the importance of the management accounting arrangements to the financial management of Disclosure Scotland, as a demand-led business. We are aware that Disclosure Scotland will undertake a re-tendering exercise in relation to aspects of the service currently performed by their operational partner. Management should take this opportunity to review the accounting policies, processes and procedures to ensure that the contract specification appropriately reflects key aspects of their financial requirements. For example, this review could include: the recognition of income (and related expenditure); improving, as practicable, on the existing "audit trail" between the financial records and management information; and facilitating forecasting and other management accounting arrangements.

Refer Action Plan no.4

Governance and accountability

44. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

45. Through its chief executive officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

46. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption.

47. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

48. Corporate governance arrangements operated effectively during 2012/13. A new Chief Executive was appointed in January 2013 and together with the new Chair of the Audit and Risk Committee (from February 2013), it was agreed that a review of the existing governance arrangements would be undertaken. It is intended that this review will consider the structures and responsibilities of the Strategic Board, the Audit and Risk Committee, the Senior Management Team and the PVG Delivery Board which is responsible for the PVG recovery project.

Processes and committees

49. The Strategic Board is responsible for ensuring that Disclosure Scotland fulfils the aims and objectives set by Scottish Ministers. Its role includes setting the strategic direction of the organisation, monitoring performance and ensuring that statutory requirements for the use of public funds are complied with. However, it is of concern to note that that the board only met twice during 2012/13 and it is therefore difficult to see how its role can be performed effectively. The review noted above intends to address this issue.

50. The Audit and Risk Committee monitors and reviews risks, internal controls and corporate governance, and reports to the board. It provides an annual report which is used to inform the

governance statement. The committee met 5 times during 2012/13 and based on our attendance at meetings, we consider that it fulfilled an effective challenge to executive directors.

51. However, concern was expressed by non-executive members of the Audit and Risk Committee that insufficient time had been given to allow members to fully discharge their scrutiny function in relation to their review of the financial statements. Consideration should be given by management to presenting the annual report and accounts to members at an earlier date.

Refer Action Plan no.5

Internal control

52. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.

53. Overall we were able to conclude that Disclosure Scotland had adequate systems of internal control with the exception of one outstanding issue in relation to the uncertainty of the income received and debtors figures recorded in the financial statements (as discussed at paragraph 17 above). Appropriate disclosure was made in the governance statement.

54. In their annual report for 2012/13, the Scottish Government Internal Audit Division provided their opinion that, based on the internal audit work undertaken during the year, there was substantial assurance in respect of the Agency's risk management, control, and governance arrangements. Their assessment included reviewing the adequacy and effectiveness of internal controls.

55. In the interests of an efficient audit approach, we also rely on assurances received from the auditor of the Scottish Government on work performed on the shared systems that operate at Disclosure Scotland, which are hosted by the Scottish Government. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.

56. The central systems assurance letter provided by the auditor of the Scottish Government concluded that there was adequate assurance for all systems that Disclosure Scotland uses. Adequate assurance is where key controls and procedures are operating to enable reliance to be placed on the system.

Governance statement

57. The governance statement, as included in the financial statements, provides a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period and is in accordance with Scottish Government guidance.

58. We consider that the 2012/13 governance statement has been fairly stated and reflects management's responsibilities and processes by which the assurances on the system on internal control are obtained. The statement also records the further development of arrangements, including the transformation programme and the review of governance arrangements.

Prevention and detection of fraud and irregularities

59. Disclosure Scotland is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.

60. A Counter Fraud Strategy and Fraud and Bribery Policy and Response Plan were introduced during 2012/13. Regular updates are provided to the Senior Management Team and the Audit and Risk Committee. There have been no issues of fraud reported in 2012/13. We are able to conclude that Disclosure Scotland has appropriate arrangements in place to prevent and detect instances of fraud and corruption.

61. Internal audit undertook a review of Counter Fraud policies, procedures and culture. They were able to conclude that the controls in place follow the requirements of the Scottish Public Finance Manual and they were able to provide a 'substantial assurance' opinion to Disclosure Scotland.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

62. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.

63. We have concluded that the arrangements in Disclosure Scotland are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

64. The main priority of management up to now has been on the PVG recovery plan. With this now in its final stages, management should focus on moving forward with the review of governance arrangements and the transformation programme.

65. The aims of this transformation programme are to review the business strategy, to manage the introduction of a new contract to replace the existing partnership agreement and to streamline the organisation's business and operational processes. This is to be achieved in order to support the business model.

66. With the existing partnership contract coming to an end in 2014, management focus is now turning onto the exit strategy. This strategy should ensure that there is clarity over issues such

as how the credit balances included within debtor accounts will be repaid and how the outstanding sums due for debts over 90 days will be managed (referred to previously).

67. Working towards the new contract agreement gives Disclosure Scotland the opportunity to improve the quality of management and financial information being received and also improve the governance arrangements of the contract. As part of the transformation programme, external consultants have been appointed to assist Disclosure Scotland with the new contract preparations. Consideration should be given to potential capacity gaps as highlighted by the Audit and Risk Committee. It should also consider whether any further specialist assistance may be required.

Refer Action Point No. 4

Best value, use of resources and performance

68. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.

69. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body's response to national recommendations.

70. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

71. This section includes a commentary on the best value and performance management arrangements within Disclosure Scotland. We also summarise headline performance measures used by Disclosure Scotland, highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best value

72. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

73. Where possible the principles of best value have been applied and as recorded in the foreword, Disclosure Scotland aims to 'deliver improved outcomes for...customers and stakeholders and improved organisational performance'. In addition, the organisation contributes towards the Scottish Government's national outcomes.

Overview of reported performance in 2012/13

74. Disclosure Scotland's principal activity is to contribute to the protection of vulnerable groups in society by providing criminal history information to organisations and potential employers to assist them in making safer, and more informed, recruitment decisions.

75. As recorded in the Disclosure Scotland's Annual Report, the number of applications received increased by 16% to 1.23 million in 2012/13. The main performance target is to process 90% of correctly completed applications within 14 days. Disclosure Scotland met their performance target, delivering 96% within 14 days with an average turnaround of 7.9 days. This is an improvement from 2011/12 which saw 92% of applications processed within 14 days with an average turnaround of 9 days.

76. Disclosure Scotland also measures an overall processing turnaround time. This measure should provide a more comprehensive average time for how long applications are taking from receipt to issue. In 2012/13, the average overall turnaround time, including all exception time, was just under 10 days, with 87% of applications processed within 14 days. This is an improvement on last year, when the average processing time was just under 11 days and 78% of applications were processed within 14 days.

77. This good performance has been achieved against the continuing backdrop of ongoing IT difficulties.

National performance reports

78. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed below:

Managing ICT contracts: An audit of three-public sector programmes

79. Disclosure Scotland and the implementation of the PVG system featured as one of the three-public sector programmes in this report. The focus of the report was on significant weakness in governance structures, highlighting in particular that the roles and responsibilities of partners were not clear. The report also notes that a key factor in the failure to deliver was the lack of specialist skills and experience.

80. The report detailed a set of key challenge and scrutiny questions for senior management and board members to ask of ICT contracts in future.

81. The report was discussed at the Audit and Risk Committee in November 2012. It was agreed that the key challenge and scrutiny questions would be incorporated into the process for the new contract negotiation. We have been advised that the checklist is being considered by the external consultants brought in to assist Disclosure Scotland as part of the transformation programme.

Outlook

82. With the PVG recovery plan in its closing stages, Disclosure Scotland should continue a programme of self evaluation and review of their management arrangements with a view to continuous improvement of performance. As part of this process Disclosure Scotland should have regard to the outcomes of Audit Scotland's programme of performance audits, and consider best value self assessment toolkits, as appropriate to their circumstances. In particular, the principles outlined in the *Managing ICT contracts* report should be reviewed and applied where appropriate.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual audit plan	31 January 2013	29 January 2013
Review of internal controls	10 May 2013	14 May 2013
Report on financial statements to those charged with governance	9 August 2013	13 August 2013
Audit opinion on the 2012/13 financial statements	9 August 2013	13 August 2013
Consolidation pack audit opinion	27 August 2013	N/A
Annual report on the 2012/13 audit	23 October (draft) 28 November 2013 (final)	12 November 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	21	**Income & trade receivables** A difference continues to exist between the income and the cash-based figure and movement on debtors. Management should continue to review the reasons for this difference. ***Risk: Recorded income may be mis-stated.***	Joint working group set up to design and provide a reconciliation of cash and debtor movement to the monthly transaction details. Initial output from test data to be reviewed November 2013.	Head of Finance	January 2014
2	22	**Accrued income** The financial settlement should be reviewed to ensure that it takes full account of any payment due in respect of debts in excess of 90 days. ***Risk: The financial settlement does not reflect the correct amount due to Disclosure Scotland.***	Joint working group set up to discuss outstanding debt issue and agree an appropriate and robust debt management policy. Initial proposal from the operational partner provided in October 2013 requires further enhancement and to be supported by an implementation plan which will result in a significant reduction in outstanding debt and credit balances by 31 January 2014.	Head of Finance	January 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	26	**Trade payables** The 2012/13 financial statements reflect the cost of work undertaken on the PVG development. This element of the contract was cancelled in May 2013. ***Risk: Any payment made in respect of this work could be considered a constructive loss.***	Still subject to on-going negotiations with the operational partner. In the event any payment has to be made the appropriate authority will be sought from SG Finance and the payment properly reflected within the accounts.	Chief Executive	January 2014
4	43, 67	**New contract** The new contract should provide an opportunity for Disclosure Scotland to improve the quality and coverage of management and financial information. As part of the new contract, governance arrangements should also be reviewed. ***Risk: The new contract does not provide the necessary information. Governance arrangements are not of a standard to permit management to effectively oversee the service.***	Invitation to tender (ITT) for maintenance of the current system will be issued late November 2013: this ITT will include scanning and associated processes and printing. DS have decided to take the finance front end and validation processes in-house. This finance process is expected to transfer to DS Finance by 29 October 2014.	Head of Corporate Affairs and Policy	October 2014
5	51	**Effective scrutiny** The non-executive members of the Audit and Risk committee require	Timetable to be agreed with Audit Scotland and the	Head of Corporate Affairs and Policy	January/February 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		sufficient time to review the financial statements. ***Risk: The non-executive members are unable to fulfil their scrutiny function.***	Audit and Risk Committee (ARC) at the first ARC meeting in 2014.		