Disclosure Scotland

Annual report on the 2013/14 audit

AUDIT SCOTLAND

Prepared for Disclosure Scotland and the Auditor General for Scotland
September 2014

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

Contents

Key messages

2013/14

In 2013/14 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.

We have given an unqualified opinion that the financial statements of Disclosure Scotland for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

We had previously reported on the need for a review and reconciliation to be undertaken on the accrued income balance. While we are able to report that this was undertaken, the review was late in being concluded and delayed the finalisation of the audit. Following discussion with management the financial statements were amended to reflect a revision to the 2013/14 figures provided for audit and a prior year material misstatement which required to be corrected.

We had raised concerns in the past about the income and debtors reconciliation. We are pleased to note the ongoing work in this area. A small difference remains due to timing differences but, overall we are satisfied with amounts recorded within the financial statements and the evidence provided.

In 2013/14, Disclosure Scotland operated within the budget set by Scottish Ministers with £6.5 million being returned as an underspend. The underspend arose largely as a result of planned Protecting Vulnerable Groups (PVG) system developments being cancelled. Both income and expenditure increased during the year. This reflects the increase in demand for disclosure applications.

We examined the organisation's key financial systems underpinning the control environment and concluded that they operated sufficiently well for us to place reliance on them. We were also able to take assurances from the work undertaken by Internal Audit and the Scottish Government external auditor. In addition, Disclosure Scotland's arrangements for the prevention and detection of fraud were satisfactory during 2013/14.

Disclosure Scotland has adequate arrangements for monitoring and reporting performance. The number of applications received increased by 15% to 1.41 million in 2013/14. However, the performance target of processing 90% of correctly completed applications within 14 days was not met. This slight deterioration (87% was achieved) was a result of the difficulties experienced by the operational partner in the initial processing of applications received.

Outlook

The new ICT managed service contract is due to begin in December 2014 and planning for this is now underway. The validation process and the receiving and handling of payments will be taken in house. This affords Disclosure Scotland an opportunity to improve on the quality of the financial data currently being received from the operational partner. The challenge will be to ensure that staff are adequately trained and that the new contract is effectively monitored.

There is now certainty over the future of Basic Disclosure applications for England and Wales and work is progressing on modelling and workforce planning to account for this substantial decrease in demand for services in 2017.

Introduction

1. This report summarises our findings arising from the 2013/14 audit of Disclosure Scotland. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.

2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

3. We issued a report on the review of internal controls in May 2014 in which 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.

4. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks, some of which involved a high degree of judgement by management and some of which had the potential to have significant impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix A sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

5. 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. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

6. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Disclosure Scotland and no responsibility to any third party is accepted.

7. This report is also addressed to the Auditor General and will be published on our website after consideration by the Audit and Risk Committee.

Financial statements

Conduct and scope of the audit

8. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan which was submitted to the Audit and Risk Committee in February 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

9. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan.

10. We advised the Audit and Risk Committee in July 2014 that we were awaiting a number of key back up papers which supported revisions to the financial statements. Additional audit effort was required and as a consequence the audit has been delayed. We have agreed with management to levy an additional audit fee to cover the further work required to complete the audit.

Audit opinion & accounting issues

11. We have given an unqualified opinion that the financial statements of Disclosure Scotland for 2013/14 give a true and fair view of the state of the body's affairs and its net costs of operations for the year. The audit opinion was formally issued and signed on 2 September 2014. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

12. We received the unaudited financial statements on 20 June 2014 in accordance with the agreed timetable and we completed our on-site fieldwork on 4 July 2014.

13. The working papers supplied were generally of a good standard and the staff provided good support to the audit team. A number of monetary adjustments were identified which were discussed with officers who upon review, agreed to amend the unaudited financial statements. This led to the production of several re-drafts during the course of the audit. The most significant adjustments related to:

    - miscellaneous income received which had been originally written off against prior year income (£207,000) was reversed and then written off against current year accrued income
    - £279,000 was identified as an amount to be set off against payments due to the operational partner in the prior year
    - accrued income of £835,000 from 2012/13 was originally written off against the General Fund. We disagreed with this treatment and discussed the issues with officers. This entry was analysed and reversed by officers and then written off against identifiable elements of trade receivables.

14. The net effect of all adjustments was, in 2012/13, to increase the net cost of operations by £502,000 and decrease taxpayers' equity / general fund by £502,000. In 2013/14, the impact of audit adjustments has led to the net cost of operations decreasing by £246,000 and the general fund increasing by £787,000. The adjustments arose largely as a result of the re-calculation of the accrued income balance which is discussed further at paragraphs 25 and 26 below.

15. Disclosure Scotland is required to follow the 2013/14 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.

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

Significant findings (ISA260)

17. During the course of the audit we identified a number of significant issues which are discussed further below.

18. **Financial statements preparation**. In our final report on the 2012/13 audit we raised a number of issues in relation to accrued income and debtors. These issues were largely reiterated in our letter to management submitted in May 2014. While we acknowledge the scale and complexity of the issues and are aware of officers' efforts to address them, it is disappointing to note that these matters had not been concluded by the time our final audit commenced, despite assurances having been provided by management. A fully agreed set of accounts together with acceptable evidence was provided on 8 August 2014 which enabled us to conclude. These delays have also resulted in the late submission of the consolidation pack to the Scottish Government.

19. While the accounts were presented for audit in accordance with the agreed timetable, we raised a number of matters in relation to the general layout of the financial statements; for example, the remuneration report did not reflect the necessary disclosures in order to comply with the FReM.

20. Although a formal financial statements preparation timetable was prepared, a number of the later key dates were missed as a result of officers addressing the range of audit issues raised. Officers should adhere where possible to the key stages and allowance should be made to include a management quality review of the unaudited financial statements prior to submitting the accounts for audit in order to minimise the number of changes required.

Refer Action Plan No. 1

21. In 2002 Disclosure Scotland entered a PPP agreement with BT Plc (the 'operational partner'). This agreement was later varied to include the build and on-going maintenance of the PVG IT system. This PPP agreement gives BT responsibility for all income receipt, cash handling and debt processes which are administered using BT financial systems. As a consequence,

Disclosure Scotland is entirely reliant on BT to properly manage this function on their behalf, including the provision of all related financial information.

22. This Agreement has led to significant accounting and audit difficulties as information has not been prepared in an appropriate format and quality sufficient for Disclosure Scotland's accounting requirements. This has become more significant as operational activity has increased alongside the implementation of the PVG IT System increasing the complexity of data. Officers from both Disclosure Scotland and BT have worked closely together in an attempt to understand and address the issues. The matters raised below in paragraphs 23-30 should be considered against this backdrop.

23. **Prior year adjustment**. *IAS 8 Accounting policies, changes in accounting estimates and errors* requires material errors to be corrected retrospectively. The accounts originally presented to audit reflected a prior year adjustment of £250k increase in the net cost of operations and a net decrease in the balance held by the general fund of £1.043 million. This largely reflected the writing off of the accrued income balance (£835k) (discussed further below). As noted above in paragraph 13, we disagreed with the treatment and requested that officers reconsider the treatment of this balance. The revised prior year adjustment which has now been agreed reflects an increase of £502k in the net cost of operations and a corresponding decrease of £502k in the general fund balance. Further information has been disclosed at note 1.12 in the financial statements.

24. While we have agreed the revised figure, we have requested assurance from the Accountable Officer on the appropriateness of the prior period restatement. Disclosure Scotland will need to continue to reconcile the amounts settled for debts over 90 days together with the settlement of credit balances and miscellaneous income to ensure the movement in debt is correctly reflected. This is particularly important as the current contract moves towards conclusion.

Refer Action Plan No. 2

25. **Trade receivables (accrued income).** In 2012/13 we reported that the financial statements included accrued income which was largely represented by the movement in debt outstanding in excess of 90 days of which an element was due to Disclosure Scotland. At that stage we were satisfied with management assurances received but it was agreed that further work would be undertaken to reconcile and confirm the amounts due. We reiterated this in our 2013/14 Annual Audit Plan and management letter.

26. As reported above, this reconciliation was not concluded. We raised our concerns over the treatment of this balance with officers who undertook further investigation. As a consequence, the accrued income balance now recorded in the 2013/14 financial statements is £39k (credit) while the 2012/13 balance has been amended to £333k. While we are satisfied that the balance now recorded is reasonable, we have asked the Accountable Officer to provide assurance as to the efficacy of the balance and that it fairly presents the financial position as at 31 March 2014. Management should continue to review the accrued income balances until the contract is concluded.

Refer Action Plan No. 2

27. **Income and trade receivables**. All transactions are processed through systems which are managed by Disclosure Scotland's operational partner and financial information to support the income and the trades receivable figures are supplied monthly to Disclosure Scotland as part of the agreed contract. A difference of £114k remains between the reconciled banked monthly revenue figure and the movement on debtors, and the transaction list which is used to determine the income level. We consider this difference to be acceptable due to the varying income recognition points and variety of payment options within the PVG system. However, we have asked management for assurances that all income has been recognised in compliance with the terms of the BT service contract and has been fully and properly accounted for in the 2013/14 annual accounts. Management should continue to review the information provided by the financial systems to ensure the accuracy of the reported figures.

Refer Action Plan no.3

28. **Miscellaneous Receipts Account.** We referred in our management letter to the existence of 2 income suspense accounts which had been in operation for a number of years and which had been held by the operational partner and had not previously been advised to Disclosure Scotland. Neither of these balances had been reflected in the financial statements to date. The financial statements have been adjusted to reflect a reduction in accounts receivable of £299k as the balance on these accounts represents cash which has been paid but not allocated against specific debtor accounts. There is a corresponding decrease in trades payable to reflect the reduction in the amount due to be paid to the operational partner.

29. While we are satisfied that the accounts correctly reflect the receipt of this miscellaneous income, we have asked the Accountable Officer for assurances that in so far as he is aware, all relevant balances have been appropriately incorporated within Disclosure Scotland's financial statements. The receipt of miscellaneous and other unidentifiable income should be subject to ongoing review and reallocation.

30. As Disclosure Scotland move towards the end of the current contract agreement it is essential that officers gain a full understanding of the balances being held on their behalf. This is particularly important as the finance function is being taken in-house.

Refer Action Plan no.4

31. **Events after the reporting period**. 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 awarding of the new service delivery contract which is due to commence in December 2014. This event has been disclosed as a non-adjusting event and appropriate disclosure has been made in the financial statements.

32. **Protecting Vulnerable Groups (PVG) asset**. 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). As at 31 March 2014, just under 2 years of its useful life remains.

33. At the go-live date there were significant performance and stability issues which have been addressed by Disclosure Scotland's operational partner who established and implemented a recovery plan. This recovery plan is now fully complete and all applications are being processed on the PVG system. However, an independent review concluded that the system was not suitable to support the future business post 2017. While we consider the PVG asset to be reasonably stated based on our work undertaken, we have requested assurances from the Accountable Officer that the asset is operating effectively without significant defect which would affect the valuation recorded in the accounts. In addition, we have asked for assurance that the asset value recorded in the asset register is a reasonable representation of the remaining life.

Financial position

2013/14 Outturn

34. 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)
Cash DEL	3,000	(2,232)	5,232
Non cash (depreciation)	5,500	4,283	1,217
Net cost of operations	**8,500**	**2,051**	**6,449**
Capital	300	270	30
Total	**8,800**	**2,321**	**6,479**

Source: Disclosure Scotland annual report 2013/14

35. Gross operating costs during 2013/14 were £42.3 million with income of £40.3 million giving a net operating deficit of £2.0 million which was funded from the Scottish Consolidated Fund. This compares with a Scottish Government budget of £8.5 million. The resultant underspend of £6.5 million was largely as a result of a cancellation of further PVG developments as the contract terminates.

Budgetary control

36. Disclosure fee income was £40.1 million which was £0.9 million less than the agreed budget. This under-recovery of income arose as a result of the number of free disclosure checks being processed, increased. Operating costs were underspent by £6.4 million when compared to

the agreed budget. As noted above, this was due to the cancellation of PVG system development work.

37. Senior management receive monthly monitoring reports and regular reports are provided to the Board for their information. These reports continue to be developed by management in order to provide better quality information to members.

38. 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. This is particularly so with the demand for free-checks which can place budgetary pressures on the business.

2013/14 financial position

39. The Statement of Financial Position shows a net asset position of £9.7 million at 31 March 2014 (£10.9 million (restated) in 2012/13). This reduction of £1.2 million reflects the depreciation of the PVG assets of £4.0 million and a decrease of £2.5 million in trade payables which is largely attributable to a reduction in the level of payment due to Disclosure Scotland's operating partner.

Financial planning

40. The 2014/15 Departmental Expenditure Limit from the Scottish Government is £6.5 million, a decrease of £2 million (24%) from the 2013/14 original budget. However, in recognition of expenditure incurred due to the volume of free disclosure checks, the Scottish Government has agreed to provide cover for an unfunded pressure of up to £2.5 million in 2014/15.

41. As at July 2014, Disclosure Scotland continues to underspend against its allocation from the Scottish Government. Demand is expected to rise in 2014/15 with a 10% increase in applications currently being predicted. Careful monitoring will be necessary to ensure the predicted increase is contained within the agreed budget.

42. Our annual audit plan referred to the provision of the Basic Disclosure service across the rest of the UK which is currently being delivered by Disclosure Scotland on behalf of the Home Office for England and Wales. From January 2017, this function will transfer to the Disclosure Barring Service in England. This loss of business will mean a change in the business model currently being applied. Management have advised that that business and financial model is being updated to reflect the impact of these changes.

43. We have noted above the importance of the management accounting arrangements to the financial management of Disclosure Scotland, as a demand-led business. As a consequence of the re-tendering exercise, Disclosure Scotland will take in-house, a range of financial operations which are critical to the organisation's business and which are currently performed by their operational partner. Management should ensure that all accounting policies, processes and procedures are subject to review and are in place for the transition. In

addition, appropriate staff training should be provided to ensure staff have the necessary skills to perform their functions effectively.

Refer Action Plan no.5

Workforce planning

44. We noted in our management letter issued in May 2014 that while an extensive programme of work has been undertaken on modelling the workforce to business demand, expenditure on agency staff and overtime continued to rise during 2013/14 in response to increasing volumes; expenditure on agency and temporary staff alone is 26% of the total staff costs. It is therefore essential that the models being developed are robust and provide a true reflection of disclosure application demand together with workforce requirements. We acknowledge that agency staff and/or overtime will continue to be required to address the fluctuating demand.

Corporate governance and systems of internal control

45. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements.

Overall effectiveness

46. Corporate governance arrangements operated effectively during 2013/14. An internal review of the existing governance arrangements was undertaken during the year which resulted in the reorganisation of the Senior Leadership and Senior Management Teams. In addition, membership of the audit and risk committee was reviewed. These arrangements continue to bed in.

47. Internal Audit reviewed the corporate governance arrangements during 2013/14. Based on the work undertaken, Internal Audit were able to provide substantial assurance on the risk management, control and governance arrangements in place over Corporate Governance. One high priority issue was identified in relation to information governance and the need to strengthen the underpinning systems. Appropriate disclosure has been made in the governance statement.

Processes and committees

48. The 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. We are pleased to report that the Board met 6 times during 2013/14 (compared to twice in 2012/13) and meetings appear to be more structured and focussed.

49. 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 2013/14 and based on our attendance at meetings, we consider that it fulfilled an effective challenge to executive directors.

Accounting and internal control systems

50. 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.

51. In their annual report for 2013/14, 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.

52. As a result of our audit work we were able to conclude that; overall, Disclosure Scotland had adequate systems of internal control although we highlighted a number of areas which required management action which have been discussed earlier in this report. Appropriate disclosure has been made in the governance statement in relation to the matters arising.

53. 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.

54. Two central systems assurance letters, covering payroll and financial services, were provided by the auditor of the Scottish Government. The auditor was able to conclude that the controls tested, operated effectively throughout the period from 1 April 2013 to 31 March 2014. An exception was noted in relation to the controls in operation over permanent and temporary changes to payroll. Our local audit testing also identified some issues in relation to this deficiency.

Governance statement

55. The governance statement 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.

56. We consider that the 2013/14 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 irregularity

57. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall

arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely. Regular updates are provided to the Senior Management Team and the Audit and Risk Committee.

58. There were no instances of fraud or irregularity reported in 2013/14 and we are able to conclude that Disclosure Scotland has appropriate arrangements in place to prevent and detect instances of fraud and corruption.

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

59. 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. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

60. Achievement of best value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. 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.

61. Where possible the principles of best value have been applied throughout Disclosure Scotland's governance framework. In addition, the organisation contributes towards the Scottish Government's national outcomes.

Performance

62. 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.

63. As recorded in the Disclosure Scotland's Annual Report, the number of applications received increased by 15% to 1.41 million in 2013/14. The main performance target is to process 90% of correctly completed applications within 14 days. Disclosure Scotland did not meet this performance target in 2013/14, delivering 87% within 14 days with an average turnaround of 9.3 days. This is a deterioration in performance from 2012/13 which saw 92% of applications processed within 14 days with an average turnaround of 9 days.

64. The target was missed due to difficulties experienced by the operational partner in processing the receipt of applications. This remains a good performance overall given the increase in applications.

Outlook

65. With the termination of the current PPP agreement and the creation of a new service contract with ATOS, Disclosure Scotland should continue their 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 applied where appropriate.

66. It is essential that the exit from the current contract is managed effectively and 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). This clarity will be necessary in order to ensure that the organisation is able to take on board the additional financial functions which are transferring in-house. It is also essential that the new contract, which is due to commence in December 2014 is properly managed and monitored to ensure good performance continues.

Refer Action Point No. 5

Acknowledgements

67. We would like to express our thanks to the staff of Disclosure Scotland for their help and assistance during the audit of this year’s financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Key audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

	Audit Risk	Assurance procedure
1.	**Income and trade receivables**. A difference continues to exist between the income and the cash-based figure and movement on debtors. ***Risk.*** Recorded income may be mis-stated.	We reviewed the reconciliations and the underlying transactions as part of our interim and final accounts work. We discussed progress on the discussions with the operational partner and we were satisfied that the income has been fairly stated.
2.	**Accrued income**. Accrued income is largely represented by the movement in debt outstanding in excess of 90 days. An element of this is due to Disclosure Scotland. ***Risk.*** The financial statements do not accurately record the value of accrued income due from the operational partner.	We undertook a detailed review of accrued income as part of our interim work and we reported our concerns to management in May 2104. We worked closely with officers as part of our final accounts audit which led to a restatement of a number of balances included within the draft financial statements. As a consequence we are satisfied that the balance is reasonably stated.
3.	**Fraud**. A material amount of income is derived external bodies. In addition, information utilised is based on systems not under to the direct control of Disclosure Scotland. ***Risk***. Income from external sources can present a risk of fraud.	We undertook substantive testing of external income as part of our interim audit work. Our testing focussed on other income received and no matters arising were identified.
4.	**PVG recovery plan**. The operational partner has been given an end date of 27 April 2014 to have all agreed services releases running, after which a change freeze will apply. ***Risk.*** The PVG recovery plan is not completed thereby reducing the functionality of the system.	We monitored progress on the PVG recovery plan which concluded in April 2014. The Legacy system has been fully decommissioned. No further developments to the PVG system are being implemented as the service delivery partners change in December 2014.
5.	**Transfer of functions**. From October 2014, Disclosure Scotland	No specific audit work was undertaken during 2013/14 as the transfer of functions was

	Audit Risk	Assurance procedure
	will take over both the finance and validation functions of the PVG system. ***Risk.*** There is a risk that the systems transferred are unable to produce the required management information and that the staff in place do not have the necessary expertise to understand and manage the systems.	postponed to December 2014. We shall continue to monitor and review progress.
6.	**Governance.** A review of governance arrangements is currently being undertaken. The updating of corporate governance documentation and website is being progressed. ***Risk.*** Structures and governance documentation are not maintained and are out of date.	The internal review has now concluded and Internal Audit recently reported findings on their review of corporate governance. Their review identified a number of issues requiring action and gave a 'substantial' assurance rating. We have relied on their work in order to avoid duplication of effort.

Appendix B: action plan

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
1	20	**Financial statements preparation** Key working papers were not provided to back up adjustments made to the financial statements. Management review of the accounts was not completed in advance of providing the draft accounts to audit. ***Risk*** A qualified opinion is given on the financial statements due to the absence of evidence. The audit is delayed due to the absence of management review. **Recommendation** Officers should adhere to the key dates and allowance made to include a management quality review of the unaudited financial statements prior to submitting the accounts for audit.	The financial statements were supplied to Audit Scotland on 20 June 2014 in accordance with the financial statements production plan. A substantially complete set of working papers was available at this time. Audit Scotland disagreed with the accounting treatment of a number of debt and income related items, on management review it was agreed to alter the treatment. The production of schedules to support these adjustments was a complex and time consuming process. Schedules that have been produced through this process will be continued throughout the next year to support future audits. We intend to further develop the financial statements production plan for future years and will endeavour to build more time into the plan for more detailed	Head of Finance	March 2015

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
			management review in advance of audit.		
2	24, 26	**Accrued income** The reconciliation of accrued income was not completed timeously resulting in very late adjustments to the financial statements. ***Risk*** Income due is not recognised and the financial statements are not presented accurately. **Recommendation** Disclosure Scotland should reconcile the amounts settled for debts over 90 days together with the settlement of credit balances and miscellaneous income to ensure the movement in debt is correctly reflected. This is particularly important as the current contract moves towards conclusion.	Reconciliation of accrued income was a complex process which involved liaison with our operational partner. Significant attention was given to the process and these reconciliations supported the accrued income balances presented for audit in June 2014. Further reconciliation work was required as a result of audit adjustments agreed. This reconciliation work did delay agreement of the audit adjustments. We will continue with this reconciliation process through 2014-15 and particularly in advance of the PPP arrangement ending.	Head of Finance	Ongoing
3	27	**Income and trade receivables** Differences continue to exist within the reconciliation between the income and trades receivable balances due	We have worked with our operational partner to understand and give transparency to these timing differences. We will continue this work and will monitor the	Head of Finance	Ongoing

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
		to timing differences. ***Risk*** Income may be mis-stated and the financial statements are not presented accurately. **Recommendation** Management should review the information provided by the financial systems to ensure the accuracy of the reported figures.	scale and extent of timing differences on an on-going basis. We have involved senior finance figures from our operational partner to assist in this process. This work will continue throughout 2014-15.		
4	30	**Current service contract: exit** There is continuing dialogue as to the financial processes being transferred in-house. The various systems still need to be fully understood. ***Risk*** There is a risk that issues remain outstanding when the current contract comes to an end resulting in loss to the organisation. **Recommendation** Exit from the current partnership agreement will need to be managed effectively to ensure there is clarity over financial issues such as, how debtors will be settled; the treatment of	Exit from the current PPP contract is being managed through the Disclosure Scotland transformation programme. We have a specific work-stream relating to the transition of financial operations, supported by a full time project manager and appropriate project planning methodologies. We are finalising the transfer of debt and finance cutover arrangements at the contract end date through a legal variation agreement with our operational partner. We are updating the debt policy and procedures in place to ensure the	Head of Finance	Ongoing

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
		credit balances; the application of miscellaneous receipts, and how outstanding sums due for debts over 90 days will be managed.	debt (including credit balances and miscellaneous receipts) is appropriately managed by our operational partner up to the date of transfer.		
5	43, 66	**New service contract** The new contract should provide an opportunity for Disclosure Scotland to improve the quality and coverage of management and financial information. ***Risk*** The new contract does not provide the necessary information. **Recommendation** Management should ensure that all accounting policies, processes and procedures are subject to review and are in place for the transition. Appropriate staff training should be provided to ensure staff have the necessary skills to perform their functions effectively.	As above - exit from the current PPP contract is being managed through the Disclosure Scotland transformation programme. We have a specific work-stream relating to the transition of financial operations, supported by a full time project manager and appropriate project planning methodologies. We are updating the debt policy and procedures in place to ensure the debt (including credit balances and miscellaneous receipts) is appropriately managed by our operational partner up to the date of transfer. In addition the finance transition project is dealing with ensuring we recruit, retain and train staff (as appropriate) that will be carrying out the finance	Head of Finance	Ongoing

Action Point	Refer Para No	Issue, risk and recommendation	Planned Management Action	Responsible Officer	Target Date
			functions for Disclosure Scotland. We have included within the 2014-15 Internal Audit plan, work to both validate our transitional arrangements and to review key controls of the system once operational responsibility transfers. The results of this audit will be available in due course.		