



**Scott-Moncrieff**  
business advisers and accountants

# **Disclosure Scotland**

Interim update report

For the year ended 31 March 2017

**May 2017**

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# Introduction

# Introduction

1. Our External Audit Plan 2016/17 was approved by the Audit Committee on 28 February 2017.
2. The Plan summarised the work we will carry out as part of our 2016/17 external audit of Disclosure Scotland. The core elements of our work include:
  - an audit of the 2016/17 financial statements and related matters;
  - an interim audit on accounting systems and corporate governance arrangements;
  - a review of arrangements pertaining to wider scope areas for governance and transparency, financial management, financial sustainability and value for money; and
  - any other work requested by Audit Scotland, for example, completion of local impact returns or targeted follow-up work.
3. This report concludes our 2016/17 interim work on Disclosure Scotland and summarises the results of our review of Disclosure Scotland's key financial systems.
4. While this report is addressed to the Board, it will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Reporting to those charged with governance

5. ISA 260 (Communication of audit matters with those charged with governance) requires the auditor to make those charged with governance or management aware, as soon as practicable possible, and at an appropriate level of responsibility, of material weaknesses in the design or implementation of internal financial controls which have come to the auditor's attention.
6. A material weakness in internal control is a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data. This may result in a material misstatement in the financial statements.
7. The results of our audits of the internal financial control framework at Disclosure Scotland are included in management reports submitted

following our audit visits and should therefore be seen as meeting the requirements of ISA 260.

## Conclusion

8. Our audit work did not identify any significant deficiencies in the adequacy or design of internal controls over Disclosure Scotland's key financial systems. We consider these systems to be well designed.
9. We have performed our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs).
10. We would like to thank all members of Disclosure Scotland's management and staff who have been involved in our work for their co-operation and assistance during our interim visit.

## Feedback

11. We always welcome feedback on the quality of our audit work and associated outputs. Please access the following link to provide comments:

<https://www.surveymonkey.co.uk/r/S2SPZBX>



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## Summary of findings

# Summary of findings

## Review of Disclosure Scotland's key financial systems

12. Auditors are required to carry out the audit of financial statements in accordance with ISAs. To comply with the requirements of the ISAs we consider Disclosure Scotland's key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
13. During our interim audit we have reviewed Disclosure Scotland's key financial systems and controls to establish whether they provide adequate assurance to support the preparation of the annual financial statements. Reviewed key systems and controls are as follows:
- Income
  - Operating Expenditure
  - Payroll Expenditure
  - Cash and Bank
  - Intangible Assets
  - Financial Ledger and Journal Processing
  - Related Party Transactions.
14. We did not identify any significant deficiencies in the adequacy or design of internal financial controls over Disclosure Scotland's key financial systems.

## Preparatory final accounts audit work

15. During our interim visit we undertook preparatory work for our final accounts audit. This included the following audit work:
- review of prior year accounting policies;
  - review of opening account balances;
  - review of the internal audit function; and
  - review of board and committee minutes.

16. From our review of prior year accounting policies, we recommended adding a revenue recognition accounting policy for the 2016-17 financial statements, as required by the FReM. We further identified that the financial instruments note should refer to IFRS 7 instead of FRS 25. Under IFRS 7, Disclosure Scotland is required to disclose the measurement basis of financial instruments and exposure to credit and market risk if this is deemed to be material. Both recommendations were accepted by the Head of Finance.

## Wider scope audit

17. Our 2016/17 audit plan identified our intention to perform a review of the Best Value arrangements of Disclosure Scotland, in compliance with the Code of Audit Practice. During our interim visit, we initiated our review of governance and transparency; financial management and sustainability and value for money arrangements.
18. We have not identified any significant issues at this stage. We will review and complete this assessment during our final accounts audit work, and report best value conclusions within our annual audit report.

## Follow up of prior year audit recommendations

19. Audit Scotland identified six actions from the 2015-16 audit. As part of our interim audit, we have followed up the recommendations raised by Audit Scotland and the actions taken by management in response to these. These recommendations, as well as a status update, are shown in the table below. We will update the progress against these recommendations as part of our final audit in June 2017.

## Financial statements and the 2016/17 audit process

20. Audited central government financial statements must be submitted to the Scottish Government by 31 October 2017. We will continue to liaise with management to plan for our year-end audit and agree respective expectations and timetables. Our final audit visit is planned to start in June 2017, with the accounts being presented to the Audit Committee on 22 August 2017.

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# Prior year action plan



# Prior year action plan – as agreed with Audit Scotland

1. Income Reconciliations	
<b>Observation and Risk</b>	<p>Bank reconciliations matched to the underlying income transactions were not undertaken timeously. Procedures have not yet been fully updated.</p> <p>There is a risk that income is not fully recorded and that the financial statements are misstated. There is also a risk that the audit opinion on the financial statements is modified if these reconciliations remain incomplete.</p> <p>There is a risk that due to the absence of procedures and the continuing reliance on temporary staff in the reconciliation process that there is no assurance that the income received agrees to the services delivered.</p>
<b>Recommendation</b>	<p>Reconciliations should be undertaken timeously. Procedures should be finalised for the preparation of the reconciliations and should become embedded in everyday practice.</p>
<b>Original management response</b>	<p>Agreed. Reconciliation is being fine-tuned and we are automating manual interventions where we can.</p> <p>The procedures are nearing finalisation and we will continue to review as processes are updated.</p> <p><b>Responsible Officer and Target Completion Date:</b> Head of Finance – October 2016</p>
<b>Management tracker update</b>	<p>8/09/2016: Desktop procedures completed and sent to Audit Scotland. These are currently being road-tested and revised where tester cannot follow the instructions. Reconciliation process has been speeded up as we now have a new Oracle report which reduces the reconciliation preparation time by almost 2 weeks.</p> <p>21/10/2016: Reconciliation process now embedded in the monthly processes. Have new Oracle Financial reports which have speeded up the reconciliation process. All reconciliations completed for the year to date including September 2016. All reconciliations square to the penny. Action can be closed.</p>
<b>Completion date</b>	<b>21 October 2016</b>

## 2. Long Term Financial Planning

<b>Observation and Risk</b>	<p>The reduction in basic disclosure applications being processed means that there will be a reduction in fee income. A future funding strategy has yet to be agreed.</p> <p>There is a risk that the current uncertainty over the future funding strategy impacts on future business requirements.</p>
<b>Recommendation</b>	<p>Longer term financial planning should be addressed going forwards. The revised funding strategy should be agreed as soon as practicable in order to ensure the financial sustainability of the organisation going forwards.</p>
<b>Original management response</b>	<p>Agreed. Progress has been made. We are working towards a proposal that will meet our requirements in regard to a balanced budget over the longer-term planning horizon.</p> <p><b>Responsible Officer and Target Completion Date:</b> Director of Corporate Services - Completed by end Dec 16 (as part of the agreed Spending Review (SR) 16) being conducted by Scottish Government</p>
<b>Management tracker update</b>	<p>21/09/2016: A note was provided to DFM on 25/08/16 to inform, and initiate discussion with Cabinet Secretary for Finance and the Constitution, the approach agreed by DFM on 09/08/16. This approach included a request for additional funding over 2017-18 and 2018-19 to close our "structural funding gap". We now await the outcome.</p> <p>19/10/2016: Given fluid position with transition of Basics to DBS this has created further uncertainty / opportunity and Ministers have been advised.</p> <p>12/12/16: Minister agreed with the Home Office to extend the DBS transition date to 30/09/17, which has had a positive effect on income for next year. The reconciliations in the baseline budget have been agreed by SG and published in the Budget Bill.</p> <p>24/01/17: Positive assurance obtained from SG (16/12/16) that funding requirement will be found as part of budget revision negotiations as 2017-18 financial year progresses. This is being kept in view on both DS / Portfolio Risk Registers and will be closed on this tracker.</p>
<b>Completion date</b>	<p><b>24 January 2017</b></p>

### 3. Staff Capacity

<p><b>Observation and Risk</b></p>	<p>Staff capacity has been adversely affected by the significant workload as a result of the pressures of the transformation programme and the on-going legal dispute. Staff well-being may also be affected.</p> <p>Risk. There is a risk that staff absence and turnover increases and affects operational performance.</p> <p>There is also a risk that the progress of the transformation programme in particular is affected by the continuing and increasing pressure to address significant issues within a tight timescale.</p>
<p><b>Recommendation</b></p>	<p>Management should continue to review the timescales and milestones relating to the transformation programme to ensure they are realistic and are not placing undue pressure on staff to achieve.</p>
<p><b>Original management response</b></p>	<p>Organisation-wide: Staff capacity and output requirements are subject to on-going monitoring across all Directorates and are given added focus at Senior Leader / Management Team and the Workforce Planning Group. We have also recruited a full-time HR professional advisor to ensure that interventions remain appropriate. The holistic situation is being managed proactively and is kept in view on our Corporate Risk Register.</p> <p>Programme: The Programme has changed delivery direction and pursuing a more iterative approach i.e. Discovery/Alpha/Beta. The resourcing plan for the programme is currently being adjusted to reflect this revised approach and will continue to be refined through each iteration.</p> <p>Alternative resourcing models are being explored and in-particular greater core business involvement via internal Product Owners and Subject Matter Experts. We are also looking at options for flexible client-side support.</p> <p><b>Responsible officer and Target Date:</b> On-going across all Directorates and Programme Director - Revised plan and delivery strategy will be available by end December 2016 and thereafter subject to on-going review.</p>
<p><b>Management tracker update</b></p>	<p>21/09/2016: Programme continues to monitor sick absence and there are no issues with this. Continue to review resource capacity against the requirements of the Programme.</p> <p>14/11/2016: Over the next few weeks the Programme will recruit some specialist roles using a broad range of recruitment options available, for example, interim managers framework and DATs (national digital framework).</p> <p>13/12/16: The Programme is currently under-resourced. There are some concerns over key members of staffs' well-being. However, the resourcing project is underway and is working in collaboration with DTS and a range of internal DS secondments.</p> <p>30/01/17: The Programme is reviewing the timescale and features that can realistically be delivered in the time frame. The aim is to reduce pressures on staff in line with the resources available to us.</p> <p>15/02/2017: Supplier awarded contract to undertake IT work required and work currently being done to break work into manageable chunks. Suppliers will be working</p>

### 3. Staff Capacity

with DS for next 16 weeks which will fill resourcing gaps and alleviate staffing pressures. Recruitment underway to recruit for key roles specifically a product owner and technical architects.

There is a heightened level of assurance via the Transformation Gateway Review Report and this will be monitored against these current recommendations. Action considered closed.

**Completion date**

**15 February 2017**

#### 4. Agile Governance Approach

<b>Observation and Risk</b>	<p>The adoption of an agile approach could also pose additional governance and scrutiny challenges. An agile approach is different to a traditional procurement and programme approach and changes to governance may be needed.</p> <p>There is a risk that governance and scrutiny challenge is affected by the move to agile working.</p>
<b>Recommendation</b>	<p>Disclosure Scotland will have to consider how to ensure appropriate levels of governance and scrutiny over the transformation programme using the new agile approach.</p>
<b>Original management response</b>	<p>Agreed. Programme Scope and Approach will be reviewed by Board on 31/08/2016. Revised Governance model is being developed and as part of this process we are consulting other Government Agencies to share experiences, e.g. NHS NES, AiB and CICA.</p> <p>The proposed Governance model will be presented to the Transformation Programme Board for consideration &amp; agreement and thereafter taken to Board for approval.</p> <p><b>Responsible officer and Target Date:</b> Programme Director - Approved Governance model in place by end October 2016</p>
<b>Management tracker update</b>	<p>01/09/2016: A paper will be presented to the DS Board at their meeting on 26th October 2016 which will address the governance challenges.</p> <p>10/11/2016: Paper presented to DS Board and governance arrangements agreed in principle. Paper being re-circulated to board for their sign-off by Friday 11/11/2016.</p> <p>13/12/16: Governance paper has been signed-off. Action is considered closed.</p>
<b>Completion date</b>	<p><b>13 December 2016</b></p>

## 5. Transformation Programme Skills and Expertise

<b>Observation and Risk</b>	<p>The usage and related cost of using contractors and consultants to provide the necessary expertise for its transformation programme continues to increase. Several recruitment campaigns have failed to attract appropriate candidates.</p> <p>The transformation programme is unable to progress due to the absence of skills and expertise.</p>
<b>Recommendation</b>	<p>Management should continue to work with partners who have experience of agile working to learn lessons and inform its agile approach. Staff should be appropriately trained and developed as quickly as possible in order to progress the programme.</p>
<b>Original management response</b>	<p>Agreed. The number of contractors working in the programme over the last 3 months has significantly reduced and as a result approximately £200k of savings has been delivered so far in 2016/17. Alternative resourcing models are presently being explored.</p> <p>The programme has made a significant investment in agile training. Our Business Change Manager has attended a week-long certified course, 'Scrum Master &amp; Product Owner'. For August 2016 a one day agile overview for the DS programme team and senior managers are taking place. Additionally two staff will attend a NHS 'introduction to agile' course during the latter part of August 2016.</p> <p><b>Responsible officer and Target Date:</b> Programme Director - Essential training activities to be completed by end December 2016</p>
<b>Management tracker update</b>	<p>21/09/2016: No further update to previous - The number of contractors working in the programme over the last 3 months has significantly reduced and as a result approximately £200k of savings have been delivered so far in 2016/17. Alternative resourcing models are presently being explored. The programme has made a significant investment in agile training. Our Business Change Manager has attended a week-long certified course, 'Scrum Master &amp; Product Owner'. During August 2016 a one day agile overview for the DS programme team and senior managers took place. Additionally two staff attended an NHS 'introduction to agile' course during the latter part of August 2016.</p> <p>14/11/2016: The Programme have further reduced the number of contractors resulting in a further £200k saving this financial year.</p> <p>13/12/16: The first part of the action plan is on track and costs have been reduced as stipulated in the previous updates. The Programme is working with DTS to build long-term capacity and capability within DS.</p> <p>30/01/17: A new supplier is now in place and available for the next 32 weeks.</p>
<b>Completion date</b>	<b>30 January 2017</b>

## 6. IT Systems

<b>Observation and Risk</b>	<p>The current contract is due to end in March 2018. The current IT system has been fully written down in the financial statements as it has been assessed as largely obsolete and is unlikely to remain operational much longer.</p> <p>There is a risk that if the new IT project is further delayed, the current IT system will be unable to continue functioning effectively.</p>
<b>Recommendation</b>	<p>Action should be taken to ensure that the IT system can continue to operate effectively should the expected end date require to be extended further.</p>
<b>Original management response</b>	<p>Agreed. DS support staff will continue to work closely with BT to monitor system stability over the contract period. At the end of March 2016 we completed the agreed technology re-fresh programme with BT. Further changes to the PVG system are being tightly controlled and a major Service Release (SR13) is planned for early September 2016. This should ensure that current system defects are addressed.</p> <p><b>Responsible officer and Target Date:</b> Programme Director - On-going and to be kept in view on ARC tracker</p>
<b>Management tracker update</b>	<p>21/09/2016: No further update to previous - DS support staff will continue to work closely with BT to monitor system stability over the contract period. At the end of March 2016 we completed the agreed technology re-fresh programme with BT. Further changes to the PVG system are being tightly controlled and a major Service Release (SR13) is planned for early September 2016. This should ensure that current system defects are addressed.</p> <p>14/11/2016: SR13 was successfully deployed in September 2016. The PVG platform is stable and supporting the highest ever volume of applications.</p> <p>13/12/2016: The IT system performance has been stable throughout the Oct/Nov peak and DS will continue to monitor this with BT, but, currently there are no concerns.</p> <p>30/01/17: The IT system performance continues to be stable and DS continues to monitor its performance.</p> <p>15/02/17: IT system performance continues to be stable and will be subject to on-going monitoring. Recommended that action is now closed as situation is kept in view at Supplier Provider Management Board (SPMB).</p>
<b>Completion date</b>	<p><b>15 February 2017</b></p>



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