Scott-Moncrieff
business advisers and accountants

Disclosure Scotland

Annual report on the 2016-17 audit
to the Board and the Auditor General for
Scotland

August 2017

Contents

Summary

Annual accounts

Disclosure Scotland is scheduled to approve the annual accounts for 2016-17 on 22 August 2017 and the accounts will be submitted, together with this report, to the Scottish Government and Auditor General by the deadline of 31 October 2017. We intend to report unqualified opinions on the financial statements, the regularity of transactions and on other prescribed matters within our independent auditor's report. We also intend to report that there were no matters which we were required to report by exception.

Wider Scope

Financial Management	Financial Sustainability
Disclosure Scotland has effective budget monitoring arrangements in place for financial management. Budget forecasts indicated that Disclosure Scotland would generate £2.397 million of net income; however actual outturn resulted in further net income of £8.192 million. This was due to the delayed transition of English and Welsh Basic Disclosure work. Allocated Scottish Government DEL capital limit was underspent by £1.129 million (56%), resulting from slippage in phase 2 of the Transformation Project.	From our review, Disclosure Scotland demonstrates effective arrangements for annual financial planning and monitoring. Disclosure Scotland currently processes disclosures for England and Wales. This will change in January 2018 with newly formed English and Welsh bodies taking on this workload. As a result, Disclosure Scotland will face significant operational change in the coming year. In addition, the cessation of the existing BT contract will also lead to significant change and require further investment in IT Infrastructure.
Governance and Transparency	**Value for Money**
Overall Disclosure Scotland has good governance arrangements in place. We are satisfied that Disclosure Scotland's governance arrangements are designed and operating effectively in line with 'On Board' Scottish Government guidance and the SPFM. Disclosure Scotland should also ensure independent financial experience on the Board is prioritised in future non-executive recruitment.	Disclosure Scotland demonstrates a commitment to continuous improvement; however there is scope for Disclosure Scotland's performance management framework to be strengthened. Disclosure Scotland continues to face significant challenges moving forward into 2017-18 in the delivery of the Transformation Project, the DBS transition, the PVG review and cessation of the BT contract. We will continue to monitor progress as part of the 2017-18 audit.

Key Facts

- Disclosure Fee Income increased by 6% in 2016-17 as a result of greater than forecasted disclosure demand. This was a result of the delayed transition of English and Welsh disclosures to the DBS.
- Operating Expenditure decreased by 12% in 2016-17 as a result of decreased payments to BT. This was a result of higher payments in 2015-16 due to a technical refresh of core IT systems.
- Intangible assets increased by 391% in 2016-17. Phase 2 of the Transformation Project commenced in 2016-17 using £0.823 million of allocated Capital DEL funding. The construction of the new IT infrastructure is recognised as an intangible asset under construction in the 2016-17 financial statements.

Conclusion

This report concludes our audit for 2016-17. Our work has been performed in accordance with the Audit Scotland Code of Audit Practise, International Standards of Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff August 2017

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Introduction

Introduction

1. This report summarises our findings from the 2016-17 audit of Disclosure Scotland.

2. We outlined the scope of our audit in our external audit plan, which we presented to the Audit and Risk committee (ARC) on 28 February 2017. The core elements of our audit work in 2016-17 have been:

   - an interim audit of Disclosure Scotland's key financial systems and governance arrangements;
   - an audit of Disclosure Scotland's 2016-17 annual report and accounts, including a review of the Governance Statement; and
   - a review of arrangements as they relate to the four dimensions of wider-scope public audit: governance and transparency, financial management, financial sustainability and value for money.

3. Disclosure Scotland is responsible for preparing annual accounts that show a true and fair view, and for implementing appropriate internal control systems. The weaknesses and risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report 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.

4. We discussed and agreed the content of this report with the Director of Corporate Services. We would like to thank all management and staff for their co-operation and assistance during our audit.

5. This report contains an action plan with specific recommendations, responsible officers and dates for implementation. Senior management should assess these recommendations and consider their wider implications before deciding appropriate actions. We give each recommendation a grading to help Disclosure Scotland assess their significance and prioritise the actions required.

Adding value through the audit

6. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to the Board through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

7. We welcome any comments you may have on the quality of our work and this report via: ***www.surveymonkey.co.uk/r/S2SPZBX***

8. This report is addressed to the Board, Accountable Officer and the Auditor General for Scotland, and will be published on Audit Scotland's website. ***www.audit-scotland.gov.uk***.

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Annual accounts

Annual accounts

Introduction

9. Disclosure Scotland's annual financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources. The respective responsibilities of Disclosure Scotland and the auditor in relation to the financial statements are outlined in Appendix 3.

Overall conclusion

Unqualified audit opinions

10. The annual accounts for the year ended 31 March 2017 are to be approved by Disclosure Scotland on 22 August 2017. We will report within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity; and
- an unqualified opinion on other prescribed matters.

11. We are also satisfied that there are no matters which we are required to report to you by exception.

Administrative processes were in place

12. We received draft financial statements and supporting papers of a good standard, in line with our agreed audit timetable. Our thanks go to management and staff for their assistance.

13. Arrangements are in place to enable the annual report and accounts to be submitted to the Scottish Government and Auditor General for Scotland prior to the 31 October 2017 deadline.

Our assessment of risks of material misstatement

14. The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our materiality threshold was revised from our audit plan, as discussed at paragraph 30. We designed our audit procedures relating to these matters in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. We outline our three audit risks below.

Audit Risk 1: Income Reconciliations

As of 1 April 2015 Disclosure Scotland became responsible for managing and recording all income, cash handling and debt processes, previously performed by the operational partner BT. This transfer of responsibility gave rise to the need for Disclosure Scotland to develop and manage robust processes for reconciling income to receipts on a regular and timely basis and for underpinning the income journals posted to the trial balance at year end.

An income to bank reconciliation process was developed during 2015-16. In the 2015-16 auditor's Annual Report, it was noted that there was an unreconciled balance of £0.2million at year end which arose due to timing differences in sales that had not been matched to cash deposits. Due to the volume of applications processed, and the scale of manual involvement, both in the application processing system and the income to bank reconciliations, there are a number of risks which could potentially affect the income recorded in the annual accounts.

15. Disclosure Scotland finalised daily, weekly and monthly desk procedures in relation to the income reconcilliaiton process in 2016-17. As stated within our audit plan, we reviewed the desk procedures to conclude these are consistent with our knowledge of income reconcilliation processes.

16. We did not report any significant control deficiences in relation to the income reconciliation process within our interim update report, which was presented to the ARC on 22 May 2017.

17. We acknowledge that Disclosure Scotland has made significant improvements to income reconciliation processes in 2016-17. The frequency of reconciliations has increased to daily; in order to eradicate variances timelessly. The degree of manual intervention has also decreased significantly, due to the development of macro tools within Microsoft Excel. As a result, income reconciliation procedures have become more efficient and effective.

18. More efficient and effective procedures are translated to an insignificant unreconciled balance below our triviality threshold. We obtained clear audit evidence to support the year end income reconciliation, which was appropriately reviewed by the Finance Operations Manager.

19. We have no matters to report in relation to this risk.

Audit Risk 2: Fraudulent Revenue Recognition

Under ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements, there is a presumed risk of fraud in relation to income recognition. The presumption is that Disclosure Scotland could adopt accounting policies or recognise disclosure fee revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

20. We did not report any significant control deficiencies in relation to revenue recognition within our interim update report, which was presented to the ARC on 22 May 2017.

21. We conducted detailed analytical procedures on Disclosure Scotland's disclosure fee income, in order to project expected fee income in alignment with sales numbers. No significant issues were identified.

22. We conducted substantive sample testing of disclosure fees, and identified no errors or matter to report.

Audit Risks 3: Management Override of Controls

In any organisation, there exists a risk that management have the ability to process transactions or make adjustments to the financial records outside the normal financial control processes. Such issues could lead to a material misstatement in the annual accounts. This is treated as a presumed risk area in accordance with ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements.

23. We reviewed the accounting records for significant transactions outside the normal course of business and obtained evidence to ensure that these were valid and accounted for correctly.

24. We have no matters to report in relation to this risk.

An overview of the scope of our audit

25. We detailed the scope of our audit in our external audit plan. We presented the plan to the Audit and Risk Committee (ARC) on 28 February 2017.

26. Our plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to the Board. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.

27. At the planning stage we identified the significant risks that had the greatest effect on our audit. We then designed audit procedures to mitigate these risks. We base our standard audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.

28. Tailored audit procedures, including those designed to address significant risks, were completed by the audit fieldwork team and the results were reviewed by the audit manager and audit partner. In performing our work, we have applied the concept of materiality.

Our application of materiality

29. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

30. Our initial assessment of materiality for the annual report and accounts during our planning work was £0.456 million, being 1% of prior year gross annual income. Our assessment of materiality is set with reference to a range of benchmarks. On receipt of the draft 2016-17 accounts, we reassessed the materiality threshold to 1.5% of Disclosure Scotland's gross 2016-17 income. This revision on threshold was a result of no control deficiencies being identified during the course of our interim audit, and the fact we were not aware of any significant issues that would warrant a lower threshold to be maintained. Our revised materiality is £0.726 million.

31. We set a performance materiality for each area of work which is based on a risk assessment for the area. We have performed audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we performed a greater level of testing on the areas deemed to be of significant risk of material misstatement. Our performance materiality and triviality thresholds were revised from our audit plan in line with the revised materiality figure stated above.

Area risk assessment	Weighting	Performance materiality
High	45%	£0.327 million
Medium	55%	£0.399 million
Low	68%	£0.493 million

32. We agreed to report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements over £14,510; and
- Misstatements below £14,510 we believe warrant reporting on qualitative grounds.

Accounting and Internal Control systems

33. Disclosure Scotland has adequate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any material weaknesses or governance issues in Disclosure Scotland's accounting and internal control systems during our audit.

The Governance Statement in compliance with the Scottish Ministers' guidance

34. We are satisfied that the Governance Statement complies with the Scottish Ministers' guidance and that the content is not inconsistent with information gathered during the course of our normal audit work. We consider the coverage of the Governance Statement to be broadly in line with expectations.

35. We note that 2016-17 internal audit annual assurance report reported an overall substantial assurance opinion. We conclude that the disclosures in the Governance Statement reflect internal audit's conclusion for 2016-17.

Areas of the Remuneration and Staff Report subject to audit opinion

36. In compliance with the FReM, the Remuneration and Staff report is reviewed in its entirety for consistency with the financial statements and to ensure disclosures are in line with the auditors understanding of Disclosure Scotland.

37. The following areas of the Remuneration and Staff report are subject to audit opinion:
    - Remuneration policy
    - Single total figures of remuneration and CETV pension figures for each director;
    - Payments to past directors;
    - Fair pay disclosures;
    - Exit packages; and
    - Analysis of staff costs and numbers.

38. We identified an error in the disclosure of the highest paid director within the Fair Pay disclosure. The highest paid director salary was not disclosed as a Full Time Equivalent, as required by the 2016-17 FReM. This was subsequently amended within the draft financial statements.

39. We further identified that the employee gender analysis required by the 2016-17 FReM was at a total employee level. The FReM requires the gender analysis to be further split into Directors, Senior Civil Servants (or equivalent) and employees. This was subsequently amended within the draft financial statements. See appendix 2.

40. No other issues were identified.

Related Party Transactions

41. In compliance with ISA 550, we are required to perform audit procedures to identify, assess and respond to the risk of material misstatement arising from related party transactions. We conducted a review in order to identify any potential undisclosed related party transactions.

42. In order to verify the completeness of the board's declaration of interests, we conducted searches of all board members via Companies House. We did not identify any undisclosed related parties. No issues were identified from our review.

Regularity Opinion

43. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts. We did not identify any instances of irregular activity.

Other matters and audit adjustments

44. We did not identify any significant financial statements issues during the audit, therefore no audit adjustments were proposed nor applied.

45. We did however identify minor disclosure and presentational adjustments that were reflected in the final financial statements. The adjustments, taken individually and in aggregate, did not have any effect on Disclosure Scotland's outturn for the year.

Whole of Government Accounts

46. Disclosure Scotland is required to complete a Scottish Government consolidation pack that we are required to audit. This pack contains a section to detail information on the whole of government accounts (WGA), which are consolidated financial statements for the public sector in the UK. We have received the draft consolidation pack and will complete our review upon signing of the 2016-17 financial statements.

Other qualitative aspects of accounting practices and financial reporting

47. We have considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our findings are summarised below:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider Disclosure Scotland's accounting policies which are disclosed in the financial statements to be appropriate.
The timing of the transactions and the period in which they are recorded.	We did not identify any concerns over the timing of transactions or the period in which they were recognised.
The appropriateness of the accounting estimates and judgements used.	The accounting estimates and judgements used by management in preparing the financial statements are considered appropriate. The principal areas of estimates and judgements have been asset depreciation and contingent asset/liability disclosures.
The potential effect on the financial statements of any uncertainties, including significant risks and related disclosures that are required.	We have not identified any uncertainties, including any significant risk or required disclosures, which should be included in the financial statements.
The extent to which the financial statements have been affected by unusual transactions during the period and the extent that these transactions are separately disclosed.	From the testing performed, we identified no significant unusual transactions in the period.
Apparent misstatements in the annual report and accounts or material inconsistencies with the financial statements, particular in relation to Performance.	The annual report and accounts contain no material misstatements or inconsistencies with the financial statements.
Any significant financial statements disclosures to bring to your attention.	Apart from those already stated, there are no other significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
Disagreement over any accounting treatment or financial statements disclosure.	There was no disagreement during the course of the audit over any significant accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

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Financial management

Financial management

Overall conclusion

Disclosure Scotland has effective budget monitoring arrangement in place for financial management.

48. Overall, Disclosure Scotland has effective arrangements in place for the financial management of resources. Our conclusion is based on a review of Disclosure Scotland's financial performance, underlying financial position, financial reporting and considerations of financial capacity. Key elements of these areas are discussed in more detail below.

Disclosure Scotland's financial performance in 2016-17

49. Disclosure Scotland generates 100% of its income from disclosure fees. The revised Scottish Government budget predicted Disclosure Scotland would generate £2.397 million of net income, which would be transferred to the Scottish Consolidated Fund. Disclosure Scotland's budget is accounted for at parliamentary accountability level, and any underspend beyond the budgeted amount can be absorbed.

50. The transfer of English and Welsh disclosure work to the DBS was originally scheduled to take place in full by December 2016. However, there have been delays in the readiness of DBS to fully assume it's processing responsibilities and, as a result, Disclosure Scotland and the DBS agreed to conduct a phased transition by January 2018.

51. English and Welsh disclosure caseload account for approximately 68% of all disclosure requests; therefore from January to March 2017 a significant amount of unbudgeted income was received. Disclosure Scotland therefore transferred a further £8.192 million to the Scottish Government at the end of the 2016-17 financial year.

52. Disclosure Scotland was initially allocated £3.1 million capital DEL expenditure to fund phase 2 of the transformation programme. At the autumn budget revision, delays within the Transformation Project led to a decrease in the capital DEL budget to £2.012 million. £0.883 million was utilised in 2016-17 resulting in a £1.129 million underspend. The further underspend mainly resulted from a conscious review of the procurement route for a major programme component and a revision to treatment of VAT.

Expenditure	Actual Outturn £m	Revised Budget £m	Over/(Underspend) £m	Over/(Underspend) %
DEL Resource:	-10.589	-2.397	-8.192	-342%
DEL Capital:	0.883	2.012	-1.129	-56%

Disclosure Scotland has effective budget setting and monitoring arrangements

53. We have considered Disclosure Scotland's system of budgetary control and did not identify any significant deficiencies.

54. Disclosure Scotland report monthly expenditure forecasts to the Directorate General Finance, Finance Programme Management Division and the Directors for Children and Families'. The monthly forecasts are produced from volumetric models for each disclosure type, using information based on trend analysis and regular discussions with key clients. The financial models are updated monthly by using gathered demand intelligence.

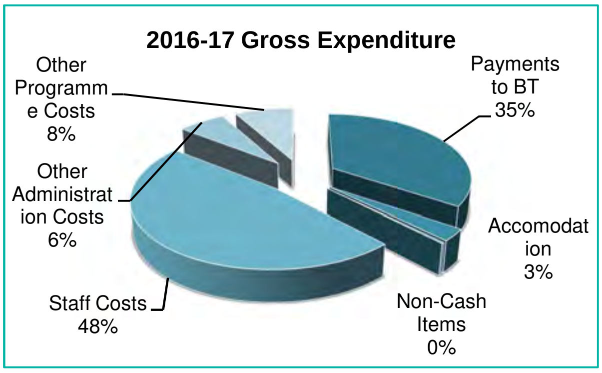
55. The Directorate of Corporate Services and Head of Finance prepare the monthly financial reports which are provided to Senior Management and presented to the Disclosure Scotland Board on a regular basis.

56. The monitoring reports provide sufficient explanations for any significant variances to date and forecasted against budget.

57. Due to the demand lend nature of Disclosure Scotland, monitoring trends and projected business change is vital to the budgeting and financial management of the organisation. We have reviewed Disclosure Scotland's financial models (see section 4 Financial Sustainability for detail), and conclude the effectiveness of financial management of the organisation.

Use of Resources

58. As shown by the chart below, Disclosure Scotland's key cost driver is staff costs which accounted for 48% of gross expenditure in 2016-17. Agency staff costs accounts for 40% of total staff costs (increase from 34% agency staff in 2015-16). The deployment of agency staff is a key element of Disclosure Scotland's workforce strategy, until the successful DBS transition by January 2018. The DBS transition will decrease disclosure demand by approximately 68%. Flexing agency staff to meet demand during the phased transition will therefore be key.



59. A team of business analysts within Disclosure Scotland provide the Head of Operations with an annual agency staff forecast split by disclosure type. The forecast is revised quarterly at the Volumes Group, which is chaired by the Senior Business Analyst and attended by both the Head of Operations and the Customer Relationship Manager. The fluid nature of agency staff ensures resourcing is kept in line with current business model needs.

60. We have reviewed the assumptions behind the agency staff forecasts, and conclude these appear reasonable in ensuring appropriate agency staff numbers are available to meet disclosure demand.

61. Disclosure Scotland's strategic workforce plan recognises that in 2017-18, the successful DBS transition will significantly alter the business model resourcing needs. We have reviewed the assumptions behind the agency staff forecasts, and conclude these appear reasonable in ensuring appropriate agency staff is available to meet demand.

Prevention and detection of fraud and irregularity

62. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found Disclosure Scotland's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

National fraud initiative

63. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies and external auditors to identify fraud and error.

64. The current NFI exercise has a completion deadline of 31 March 2018. Disclosure Scotland participates in the NFI through the Scottish Government Payroll Division.

65. The Scottish Government does not hold a separate record of data matches specific to Disclosure Scotland, therefore no matches have been notified to management for investigation.

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Financial sustainability

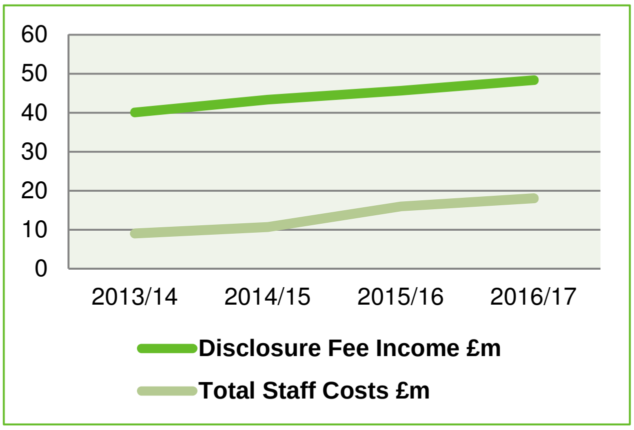
Financial Sustainability

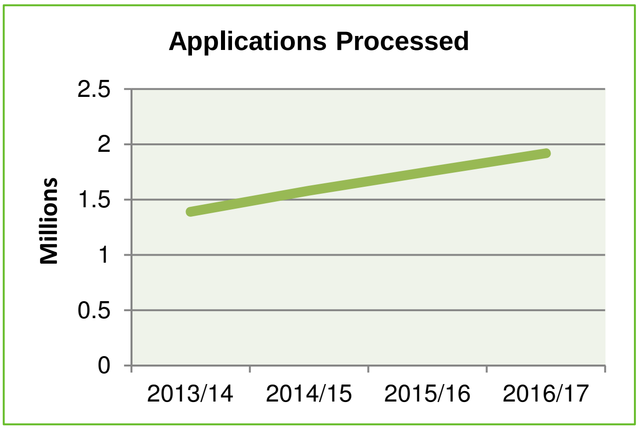
Overall Conclusion

Disclosure Scotland demonstrates sufficient arrangements for annual financial planning and monitoring. Disclosure Scotland has developed a long term financial model, which captures the majority of key assumptions and future uncertainty. Uncertainty over the timing of the DBS transition of English and Welsh disclosures and the 2017-18 PVG review continues to impact on the ability of Disclosure Scotland to implement planned changes to its operating model.

Financial Planning

66. As previously stated, Disclosure fee income comprised 100% of Disclosure Scotland's resource funds in 2016-17. As can be seen from the graphs below, disclosure demands and Disclosure Fee income have correspondingly increased every year since 2013-14.





67. As identified from the trends displayed in the graphs opposite, staff costs also display the same increasing trend since 2013-14 in line with applications processed and disclosure fee income. A sharper rise in staff costs in 2015-16 can be seen, however this is expected due to the employment of temporary transformation project staff from 2015-16.

68. It is clear from the trends identified, that the number of applications processed, income received and staff costs flex to coincide with each other. The use of temporary agency staff aligns with Disclosure Scotland's business model to proactively manage seasonal trends in demand. We are therefore confident that the estimated loss of 68% of disclosure fee income from the DBS transition in 2017-18, will be partially offset by a corresponding decrease in agency staff costs.

69. In 2017-18 a review of the PVG scheme is being carried out, which may alter future PVG fee charges. The outcome of the review is uncertain but will impact on the future income and corresponding funding needs of Disclosure Scotland. We will continue to monitor the outcome of the PVG review on impacting financial sustainability as part of the 2017-18 audit.

70. Disclosure Scotland has a long term financial model stretching to 2022-2023. The model was produced by the Corporate Services directorate and projects annual income, expenditure and Scottish Government Funding requirements.

71. The model accounts for key assumptions including application trends, workforce planning and the DBS phased transition. We have reviewed the assumptions that are projected within the model, and conclude the reasonableness of the assumptions in producing reliable financial forecasts.

72. However, we identified that the financial model does not account for the on-going legal litigation from 2014, relating to a failed IT contract. All litigation cases are subject to a degree of uncertainty. We recognise that communication with the Scottish Government regarding the case is ongoing. We recommend that Disclosure Scotland perform scenario planning for the outcome of the litigation, which is due to appear in court in 2017-18, to ensure appropriate financial response plans are in place. **See appendix 1, action point 1.**

2017-18 Funding

73. In 2017-18, Scottish Government has presently allocated Disclosure Scotland a budget of £6.320 million. This is comprised of £1.580 million net surplus of Resource DEL (cash), £7.6 million of Capital DEL and £0.3 million of non-cash Resource DEL.

74. Disclosure Scotland have identified an additional capital DEL requirement of £4.238 million in 2017-18, to fund phase 2 of the Transformation Project. This will be primarily used to fund the replacement IT system, which will require significant third party services to deliver the main body of the requirements. Other capital costs will include both the build and integration of the core solution, enabling services and infrastructure.

75. Discussions with the Scottish Government regarding the capital funding gap are on-going. We recognise that the Scottish Government has indicated that the capital shortfall will be met. We will continue to monitor communication updates between the Scottish Government and Disclosure Scotland in the coming months.

76. We have no significant concerns regarding the financial sustainability of Disclosure Scotland. However we do recognise the significant levels of uncertainty and quick paced change the organisation will face over the coming financial year. We will therefore continue to closely monitor Disclosure Scotland's financial modelling and the corresponding impact on financial sustainability as part of the 2017-18 audit.

5

Governance & transparency

Governance & transparency

77. Governance and transparency is concerned with the adequacy of governance, leadership and decision making, and transparent reporting of financial and performance information. Disclosure Scotland is responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.

Overall conclusion

We are satisfied that Disclosure Scotland's governance arrangements are designed and operating effectively in line with 'On Board' Scottish Government guidance and the SPFM. Disclosure Scotland's risk management framework also appear effective and in compliance with the SPFM.

Disclosure Scotland Governance Structure

78. The Chief Executive is the Accountable Officer for Disclosure Scotland, and is responsible for all matters delegated by the Director General for Learning and Justice, as set out in the Disclosure Scotland Framework Document. Upon review of the Framework Document, it was identified that this was last reviewed in 2015 and is therefore outdated to reflect terms of reference changes in 2016-17. We acknowledge that the framework document is currently under review by the Accountable Officer of Disclosure Scotland, and advise this is completed within the 2017-18 financial year to ensure it reflects up to date Disclosure Scotland governance arrangements. **See appendix 1, action point 2.**

79. The Chief Executive of Disclosure Scotland is the body's Accountable Officer and Chair of the Board, which is supported and advised by the Audit and Risk Committee (ARC).

80. In accordance with the UK Code of Corporate Governance, and Good Governance Standard for Public Services (2005), the roles of Chair and Chief Executive should be separate to provide a check and balance for each other's responsibilities and authority. The guidance clarifies that the respective roles should be negotiated and made clear within a framework document. This guidance does not govern the arrangements of Disclosure Scotland, but provides an additional steer on good practice.

81. The Scottish Government 'On Board' guidance governs Disclosure Scotland's governance arrangements as an agency body. The guidance states that in some circumstances it may not be appropriate for the Chief Executive to be the Chair of the Board, but does not clarify such circumstances.

82. As a Scottish Government Agency, Disclosure Scotland's framework document states that the role of the Board is not to hold the Accountable Officer to account, but rather to support, challenge and scrutinise.

83. Upon reviewing the governance arrangements of Disclosure Scotland, we are not concerned that the Accountable Officer being the Chair of the Board weakens the effectiveness of the organisations governance framework. It is acknowledged that the Scottish Government Director for Children and Families currently performs an annual appraisal of the Chief Executives performance, and the non-executive members feed into this appraisal process through direct feedback. We are therefore satisfied that there is an element on independent feedback provided to the Accountable Officer.

84. The ARC is chaired by a non-executive member of the Disclosure Scotland Board. The Disclosure Scotland Board currently has three non-executive members. The ARC has an additional independent member, who has relevant financial experience. This member is not however a member of the Disclosure Scotland Board.

85. Currently there is limited non-executive financial experience on the Disclosure Scotland Board. There is therefore a risk that there is limited independent financial scrutiny and challenge at Board level. There are currently two posts in advertisement for non-executive directors; therefore it should be a priority to ensure one of the new members has appropriate financial experience. **See appendix 1, action point 3.**

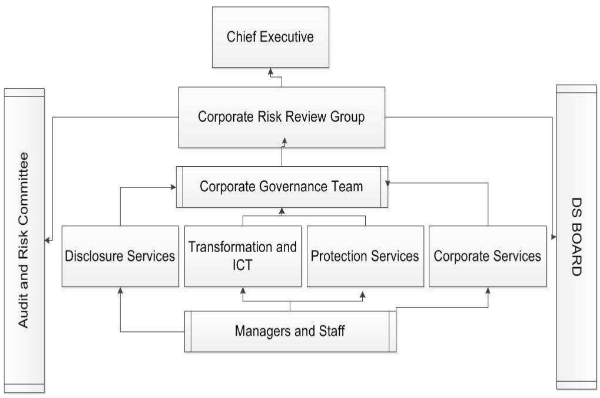
86. It is recognised that the terms for two existing non-executive members may cease in the 2017-18 financial year. Disclosure Scotland should therefore ensure appropriate transition arrangements are in place, to continue the required governance support and challenge provided by non-executive members. **See appendix 1, action point 4.**

Risk Management

87. Disclosure Scotland established a formally documented Risk Management framework in 2016. The strategy sets basic compliance principles and approaches to risk management to be executed by responsible parties, in compliance with the SPFM.

88. Disclosure Scotland projects a commitment to establishing risk management as an integral part of strategic and operational management of finances, HR, performance improvement and projects and programmes.

89. An extract from Disclosure Scotland's risk management framework showing key stakeholders in the organisation is shown below. Disclosure Scotland's Corporate Risk Review Group consists of Directorate representatives and is responsible for monitoring and reviewing escalated risks for the Accountable Officer.



90. We conclude that Disclosure Scotland's risk management framework appears effective and in compliance with the SPFM. We will continue to monitor the risk management framework as part of the 2017-18 audit.

Internal Audit

91. Assurance over internal controls and corporate governance processes are provided by Internal Audit to the ARC and Disclosure Scotland Board.

92. We conducted a high level review of the Scottish Government internal audit function against public sector internal audit standards (PSIAS), and did not identify any significant issues.

93. We have reviewed the annual Disclosure Scotland internal audit report, which was presented to the ARC in July 2017. Substantial assurance over the internal controls of Disclosure Scotland was provided, concluding controls are well managed and robust.

94. During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of Disclosure Scotland's audit resource.

Standards of conduct

95. In our opinion Disclosure Scotland's arrangements in relation to standards of conduct and the prevention and detection of bribery and corruption are adequate. Our conclusion has been informed by a review of the arrangements for adopting and reviewing standing orders, financial instructions and schemes of delegation and for complying with national and local codes of conduct.

96. As required by Audit Scotland we completed a follow up review of the 'Role of Board' in 2016-17. We did not identify any significant issues to report as part of this review.

6

Value for Money

Value for money

Introduction

97. Value for money is concerned with the appropriate use of resources and ensuring continuous improvement of services delivered.

Overall conclusions

Disclosure Scotland demonstrates a commitment to continuous improvement; however there is scope for Disclosure to further strengthen its performance management framework. Disclosure Scotland continues to face significant challenges in the delivery of the Transformation Project by March 2018.

2016-17 Performance

98. Disclosure Scotland's 2016-17 performance is measured against actions presented in the 2016-2017 Annual Business Plan (ABP). These actions support the four Strategic Priorities set out in the 2015-2018 Corporate Plan.

99. The 2016-17 ABP presents 17 success objectives of how Disclosure Scotland will achieve their strategic objectives set in the 2015-2018 Corporate Plan.

100. The 2016-17 performance report presented to the Board in March 2017 reported the completion of 5 success objectives, and the continuation/modification of the remaining 12 into the 2017-18 ABP.

101. Disclosure Scotland's main Scottish Government operational KPI, is to process 90% of correctly completed applications within 14 days. Disclosure Scotland exceeded this target by processing 99.91% of disclosures within 14 days in 2016-17.

2015-2018 Corporate Plan

102. 2017-18 marks the final year of operation under the 3 year 2015-2018 Corporate Plan.

103. At the time of writing this report, Disclosure Scotland were in the process of developing the new 2018-2021 Corporate Plan, which strives for continuing vision of:

'***providing disclosure and barring functions which make a valuable contribution to a 'Safer Stronger' Scotland'***

104. Disclosure Scotland identify 4 strategic outcomes (***Safer, Efficient, Responsive, Stronger***) which express organisational priority, with 4 corresponding strategic outcome as follows:

- ***Enhanced Customer Experience***
- ***Enable Digital by Preference***
- ***Improved Workforce Planning***
- ***Improved Safeguarding & PVG Scheme***

105. 'Success objectives' are set against all 4 outcomes, in order for Disclosure Scotland to measure what success will look like. Disclosure Scotland's directorates support delivery by action plans against the success indicators.

106. Disclosure Scotland's improvement focused approach, demonstrates the organisations commitment to continuous improvement and value for public money. As part of our 2017-18 audit, we will continue to monitor the progression of the 2018-2021 Corporate Plan.

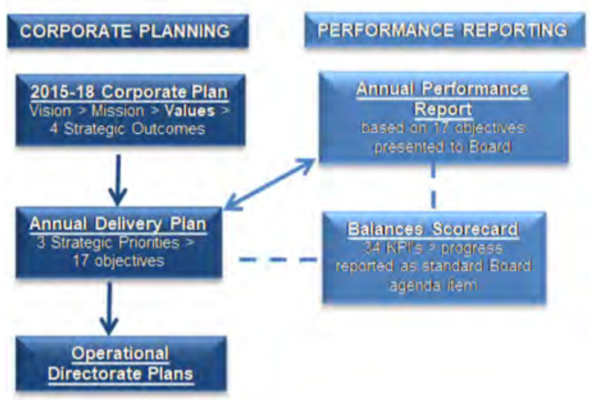
107. We acknowledge that Disclosure Scotland has demonstrated good practise by engaging with key stakeholders in the preparation of strategy plans for the Transformation Project and PVG review. By gathering stakeholder opinions when evaluating plans, Disclosure Scotland can appropriately evaluate value for money arrangements from differing points of interest.

Disclosure Scotland's Performance Management Framework

108. Disclosure Scotland continually monitor performance against 34 operational KPI's, set out in Disclosure Scotland's balance scorecard. Progress is reported as a standard agenda item at every Board meeting.

109. Disclosure Scotland do not have a formally documented Performance Management Framework, therefore it is not explicitly transparent how the 34 operational KPI's translate to the 17 success objectives set out in the 2016-17 ABP. There is therefore a risk that Disclosure Scotland's Board and stakeholders are unclear on the performance of Disclosure Scotland against its ABP. We therefore recommend that Disclosure Scotland formally document their new 2018-2021 Performance Management Framework. **See appendix 1, action point 5.**

110. An annual performance report is presented to the Board detailing performance against the 17 success objectives. There is therefore concern that Disclosure Scotland is not sufficiently measuring and reporting performance against the ABP success objectives on a timely basis throughout the year. In order for the Board to sufficiently monitor Disclosure Scotland's progress against the ABP success objectives on a timely basis, it is recommended that Disclosure Scotland review the frequency of current performance reporting arrangements. **See appendix 1, action point 6.**



Demonstrating Continuous Improvement through the Transformation Project

111. Disclosure Scotland continues to demonstrate commitment to continuous improvement through the Transformation Project. Disclosure Scotland are striving to transform the organisation and replace their outdated IT systems. From our continuous improvement review, we recognise a promoted improvement culture within Disclosure Scotland.

112. Disclosure Scotland's commitment to planning and investing in the new Transformation Programme demonstrates the organisation is engaged with internal and external environment in which they operate. The programme demonstrates commitment to transformational change, which is a key component of the Disclosure Scotland's Corporate Plan.

113. We note that Disclosure Scotland internally share good operational practice through the Continuous Improvement Board. The actions of this group encourage sharing of good operational practise between the applications and the vetting divisions.

114. The Scottish Government Centre of Excellence provides a bi-annual independent assurance review to report progress of the Transformation Programme to the Chief Executive. Recommendations are provided at each review to ensure the programme remains on track. The ARC and Board have full oversight of progress against recommendations.

115. In November 2016 the Gateway Review assessed the status of the programme as red 'critical'. At this point, successful delivery of the programme appeared unachievable. The review concluded that Disclosure Scotland did not have a coherent plan and indicated major issues which at the time of review, did not appear to be manageable or resolvable. Scottish Government recommended that the programme may need re-base lining and/or overall viability re-assessed. The review apprised the new Programme Director, who has significant experience of agile delivery, as having a positive impact on the progress of the programme.

Position in 2016-17

116. Significant progress has been made since the November 2016 review. The most recent Gateway Review completed in March 2017 assessed the status of the programme as amber. Indicating the delivery of the programme now appears feasible. Significant issues do still exist that require management attention, but appear resolvable and if addressed promptly should not present a cost/schedule over run. We will continue to monitor progress as part of the 2017-18 audit.

2017-2018 and beyond

117. 2017-18 will be a vital year for Disclosure Scotland with the Transformation Programme due for delivery in March 2018. Over the next 12 months Disclosure Scotland will experience significant change and will be focusing on 6 main work streams as follows:

- the transfer of English and Welsh Basic Disclosure work to the Disclosure and Barring Service (DBS) in England;
- managing the end of the BT contract and ensuring continuation through a replacement contract;
- delivering a substantial part of the Transformation Programme by March 2018;
- ensuring business as usual during traditional periods of peak volume for operations (expected to reduce following transfer of English and Welsh basics work to DBS);
- conclusion of the on-going legal litigation regarding the failed IT contract;
- finalising the PVG Review.

118. We will continue to monitor progress against each of these significant work streams throughout our 2017-2018 audit.

7

Appendices

Appendix 1: Management action plan

Our action plan details the control weaknesses and opportunities for improvement that we have identified during our audit.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist. The weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist.

Communication of the matters arising from the audit of the annual report and accounts 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.

Action plan grading structure

To assist Disclosure Scotland in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Grade 5	Very high risk exposure – major concerns requiring Board attention
Grade 4	High risk exposure – material observations requiring senior management attention
Grade 3	Moderate risk exposure – significant observations requiring management attention
Grade 2	Limited risk exposure – minor observations requiring management attention
Grade 1	Efficiency / housekeeping point

Action plan point	Issue & Recommendation	Management Comments
1. Financial Sustainability	**Observation** We identified that the financial model does not account for the on-going legal litigation from 2014, relating to a failed IT contract. All litigation cases are subject to uncertainty. We recognise that communication with the Scottish Government regarding the case is ongoing. **Recommendation** We recommend that Disclosure Scotland perform scenario planning for the outcome of the litigation, which is due to appear in court in 2017-18, to ensure appropriate financial response plans are in place.	**Responsible owner:** Director of Corporate Services **Action owner:** Head of Finance Key stakeholders in the Scottish Government are aware of the financial position in regard to the litigation. We will ensure that this dialogue continues. **Due Date:** N/A; Keep in view only.
Rating		
Grade 3		
Paragraph ref		
72		

Action plan point	Issue & Recommendation	Management Comments
2. Governance: Framework Document	**Observation** Upon review of the Disclosure Scotland Framework Document, it was identified that this was last reviewed in 2015 and is therefore outdated to reflect terms of reference changes in 2016-17. **Recommendation** We acknowledge that the framework document is currently under review by the Accountable Officer of Disclosure Scotland, and advise this is completed within the 2017-18 financial year to ensure it reflects up to date Disclosure Scotland governance arrangements. .	**Responsible owner:** Director of Corporate Services **Action owner:** Senior Governance Manager Agreed. The Framework Document is currently under review and will be amended to reflect Disclosure Scotland's governance arrangements. **Due Date:** end December 2017
Rating		
Grade 2		
Paragraph ref		
78		

Action plan point	Issue & Recommendation	Management Comments
3. Governance: Non Executive Members **Rating** **Grade 3** **Paragraph ref** **85**	**Observation** The Disclosure Scotland Board currently has three non-executive members. The ARC has an additional non-executive member, who has relevant financial experience and chairs the ARC. This member is not however a member of the Disclosure Scotland Board. Currently there is limited non-executive financial experience on the Disclosure Scotland Board. There is therefore a risk that there is limited independent financial scrutiny and challenge at Board level. **Recommendation** There are currently two posts in advertisement for non-executive directors; therefore it should be a priority to ensure one of the new members has appropriate financial experience.	**Responsible owner:** Director of Corporate Services **Action owner:** Senior Governance Manager A recruitment exercise is currently being undertaken to secure a non-executive board member with relevant financial experience. Pending successful outcomes / checks it is anticipated that the new board member will be appointed by September 2017. **Due Date:** end December 2017

Action plan point	Issue & Recommendation	Management Comments
4. Governance: Non Executive Members **Rating** **Grade 3** **Paragraph ref** **86**	**Observation** It is recognised that the terms for two existing non-executive member may cease in the 2017-18 financial year. **Recommendation** Disclosure Scotland should therefore ensure appropriate transition arrangements are in place, to continue the required governance support and challenge provided by non-executive members	**Responsible owner:** Director of Corporate Services **Action owner:** Senior Governance Manager Existing contracts for non-executive members end December 2017. The Chief Executive is to have a discussion with each member where an extension to their contracts will be explored. Revised contracts will be issued / recruitment exercise undertaken. **Due Date:** end November 2017

Action plan point	Issue & Recommendation	Management Comments
5. Value for Money: Strategic Performance Management **Rating** **Grade 3** **Paragraph ref** **109**	**Observation** Disclosure Scotland do not have a formally documented Performance Management Framework, therefore it is not explicitly transparent how the 34 operational KPI's translate to the 17 success objectives set out in the 2016-17 ABP. There is therefore a risk that Disclosure Scotland's Board and stakeholders are unclear on the performance of Disclosure Scotland against its ABP. **Recommendation** We therefore recommend that Disclosure Scotland formally document their new 2018-2021 Performance Management Framework.	**Responsible owner:** Director of Corporate Services **Action owner:** Head of Finance Will review as part of the Corporate Planning and Reporting process. **Due Date:** end June 2018

Action plan point	Issue & Recommendation	Management Comments
6. Value for Money: Strategic Performance Management **Rating** **Grade 2** **Paragraph ref** **110**	**Observation** An annual performance report is presented to the Board detailing performance against the 17 success objectives set out in the ABP. There is therefore concern that Disclosure Scotland is not sufficiently measuring and reporting performance against the ABP success objectives on a timely basis throughout the year. In order for the Board to sufficiently monitor Disclosure Scotland's progress against the ABP success objectives, it is recommended that Disclosure Scotland review current performance reporting arrangements. **Recommendation** In order for the Board to sufficiently monitor Disclosure Scotland's progress against the ABP success objectives on a timely basis, it is recommended that Disclosure Scotland review the frequency of current performance reporting arrangements.	**Responsible owner:** Director of Corporate Services **Action owner:** Senior Governance Manager Reporting process and frequency will be reviewed to determine sufficiency. Any new agreed ways of working will be embedded as applicable. **Due Date:** end December 2017

Appendix 2: Misclassifications and Disclosure Changes

Adjustment type	Account balance/area	Impact on the financial statements
Disclosure	Gender Analysis Disclosure – Staff Report	The FReM requires a gender analysis presented at Director, Senior Servants (or equivalent) and employee level within the staff report. This disclosure is now reflected within the 2016-17 Remuneration and Staff Report.

Appendix 3: Respective responsibilities of the Board and the Auditor

Responsibility for the preparation of the annual report and accounts

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare financial statements in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury and the accounts direction issued by Scottish Ministers under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

In preparing the annual report and accounts, the Board and the Chief Executive, as Accountable Officer are required to:

- apply on a consistent basis the accounting policies and standards approved by Scottish Ministers;
- make judgements and estimates on a reasonable basis;
- state whether applicable accounting standards as set out in the Financial Reporting Manual have not been followed where the effect of the departure is material;
- prepare the accounts on a going concern basis unless it is inappropriate to presume that the Agency will continue to operate; and
- ensure the regularity of expenditure and income.

Board members are also responsible for

- keeping proper accounting records which are up to date; and
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditor responsibilities

We audit the annual report and accounts and give an opinion on whether they:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the Agency's affairs as at 31 March 2017 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016-17 FReM ;
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers;
- in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers;
- the auditable part of the Remuneration and Staff Report has been properly prepared in accordance with the 2016-17 FReM and directions made thereunder by the Scottish Ministers; and
- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the 2016-17 FReM and directions made thereunder by the Scottish Ministers; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the FReM directions made thereunder by the Scottish Ministers.

We are also required to report by exception if, in our opinion

- adequate accounting records have not been kept; or
- the annual accounts and the part of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

Wider scope of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the annual accounts, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code frames a significant part of our wider scope responsibilities in terms of four audit dimensions. As part of our annual audit we will consider and report against these four dimensions: financial management; financial sustainability; governance and transparency; and value for money.

Independence

We are required by International Standards on Auditing to communicate on a timely basis all facts and matters that may have a bearing on our independence. We can confirm that we have complied with the Financial Reporting Council's Ethical Standard. In our professional judgement the audit process has been independent and our objectivity has not been compromised. In particular, there have been no relationships between Scott-Moncrieff and the Board or senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 4: Letter of Representation

Mr Gary Devlin

Scott-Moncrieff

Exchange Place 3

Semple Street

Edinburgh EH3 8BL

Dear Sirs,

Disclosure Scotland

This representation letter is provided in connection with your audit of the financial statements of Disclosure Scotland for the period ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Government Financial Reporting Manual (FReM) issued by HM Treasury, the accounts direction issued by the Scottish Ministers and under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

As Accountable Officer of Disclosure Scotland, I am directed to confirm to you in respect of the financial statements of the Agency for the period ended 31 March 2017 the following.

Financial statements and accounting records

1. I have fulfilled my responsibilities under the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for making accurate representations to you.
2. I have provided you with:
   - access to all information of which I amaware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - additional information that you have requested from me for the purpose of the audit; and
   - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
3. All transactions have been recorded in the accounting records and are reflected in the financial statements.
4. Except as disclosed in the financial statements, the results for the year were not materially affected by:
   - any change in accounting policies;
   - transactions of a type not usually undertaken by the Agency;
   - circumstances of an exceptional or non-recurrent nature; or
   - charges or credits relating to prior periods.
5. I have reviewed going concern considerations and I am satisfied that it is appropriate for the financial statements to have been drawn up on the going concern basis. In reaching this opinion I have taken into account all relevant matters of which I am aware and have considered a future period of at least one year from the date on which the financial statements are to be approved.

I have also considered the adequacy of the disclosures in the financial statements relating to going concern and I am satisfied that sufficient disclosure has been made in order to give a true and fair view.

6. I confirm the financial statements are free of material misstatements, including omissions. All misstatements identified during the audit were corrected. There were no uncorrected misstatements.

Fraud

7. I acknowledge as the Chief Executive my responsibilities for the design and implementation of internal control in order to prevent and detect fraud and to prevent and detect error. Measures have been put in place to reduce the risk of fraud and the improper use or misappropriation of the Agency's assets. In particular I would highlight the Standing Financial Instructions set out the procedures in place in respect of fraud and other irregularities within the Agency. This sets out respective responsibilities and coordination between relevant management, as appropriate.

8. I have disclosed to you all information in relation to fraud or suspected fraud that I am aware of and that affects the entity and involves:

- management;
- employees who have significant roles in internal control; and
- others where the fraud could have a material effect on the financial statements.

9. I am not aware of any allegations of fraud or suspected fraud with a potential effect on the financial statements which have been communicated to me by employees, former employees, regulators or other third parties.

Compliance with laws and regulation, and contractual agreements

10. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

11. The Agency has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.

Accounting estimates

12. In my opinion, the significant assumptions that have been used in determining fair values, whether such values are disclosed or applied in the financial statements, are reasonable and reflect my ability and intent to carry out specific courses of action, where this is relevant to the determination of those values.

13. In my opinion the significant assumptions used by me in making accounting estimates are reasonable.

Related parties

14. I have disclosed to you the identity of the Board's related parties and all related party relationships and transactions of which I am aware.

15. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the Financial Reporting Manual (FReM 2016/17). There was no material transactions at any time during the year which failed to be disclosed other than indicated in the financial statements.

16. In particular, no director, their connected persons or other officers had any indebtedness, agreement concerning indebtedness or disclosable interest in a transaction with the Board at any time during the year, other than as indicated in the financial statements.

Assets and liabilities

17. The following have been properly recorded and, when appropriate, adequately disclosed in the financial statements:

- losses arising from sale and purchase commitments;

- assets under construction.

18. I have disclosed to you all known actual or possible litigation or claims whose effects should be considered when preparing the financial statements and that they have been accounted for and disclosed in accordance with International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the Financial Reporting Manual (FReM 2016/17).

19. I have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

20. I have no plans to abandon activities or other plans or intentions that will result in any excess or obsolete stocks, and no stock is stated at an amount in excess of net realisable value.

21. The Agency has satisfactory title to all assets and there are no liens or encumbrances on the Agency's assets, other than as disclosed in the financial statements.

22. I have recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and all guarantees that I have given to third parties.

DBS Transition

23. I confirm that in agreement with the DBS, I plan to transition all English and Welsh disclosure services from Disclosure Scotland by January 2018.

24. I confirm that I have sufficient strategic, financial and workforce planning arrangements in place to complete the phased transition in line with the revised deadline.

Subsequent events

25. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards as adopted by the European Union and as interpreted and adapted by the Financial Reporting Manual (FReM 2016/17) require adjustment or disclosure have been adjusted or disclosed. Should any material events occur which may necessitate revision of the figures included in the financial statements or inclusion in the notes thereto, we will advise you accordingly.

Yours faithfully

....

Lorna Gibbs (Chief Executive and Accountable Officer of Disclosure Scotland)

On……………………………………………………………… (date)

The Accountable Officer is signing this letter on behalf of all directors confirming that:

- So far as they are each aware, there is no relevant audit information of which the Agency's auditors are unaware. Each Director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of the Agency's auditors for that purpose, in order to be aware of any information needed by the Agency's auditors in connection with preparing their report and to establish that the Agency's auditors are aware of that information.

Scott-Moncrieff
business advisers and accountants