



Scott-Moncrieff
business advisers and accountants

Disclosure Scotland

External Audit Plan
2017/18

February 2018

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1

Introduction

Introduction

Overview

1. This document summarises the work plan for our 2017/18 external audit of Disclosure Scotland.
2. The core elements of our work include:
 - an audit of the 2017/18 financial statements;
 - an interim audit, taking account of the work of internal audit, of accounting systems and corporate governance;
 - 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; and
 - any other work requested by Audit Scotland, for example, completion of local impact returns or targeted follow-up work.

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies in Scotland, as well as reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out her statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Scott-Moncrieff as external auditor of Disclosure Scotland for the five year period 2016/17 to 2020/21. This document comprises the audit plan for 2017/18 and summarises:
 - the respective responsibilities of Scott-Moncrieff and Disclosure Scotland;
 - our audit strategy;

- our planned audit work and approach;
- our proposed audit outputs, timetable and fee; and
- background to Scott-Moncrieff and the audit team.

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 Disclosure Scotland 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 Disclosure Scotland promote improved standards of governance, better management and decision making and more effective use of resources.
7. Any comments you may have on the service we provide, the quality of our work and our reports would be greatly appreciated at any time. Comments can be reported directly to the audit team or through our online survey: www.surveymonkey.co.uk/r/S2SPZBX.
8. While this plan is addressed to Disclosure Scotland, it will be published on Audit Scotland's website www.audit-scotland.gov.uk.

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Respective responsibilities of the auditor and Disclosure Scotland

Respective responsibilities of the auditor and Disclosure Scotland

Auditor responsibilities

Code of Audit Practice

9. The Code of Audit Practice (the Code) outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

Our responsibilities

10. Auditor responsibilities are derived from statute, the Code, International Standards on Auditing (UK), professional requirements and best practice and cover our responsibilities when auditing financial statements and when discharging our wider scope responsibilities. These are to:

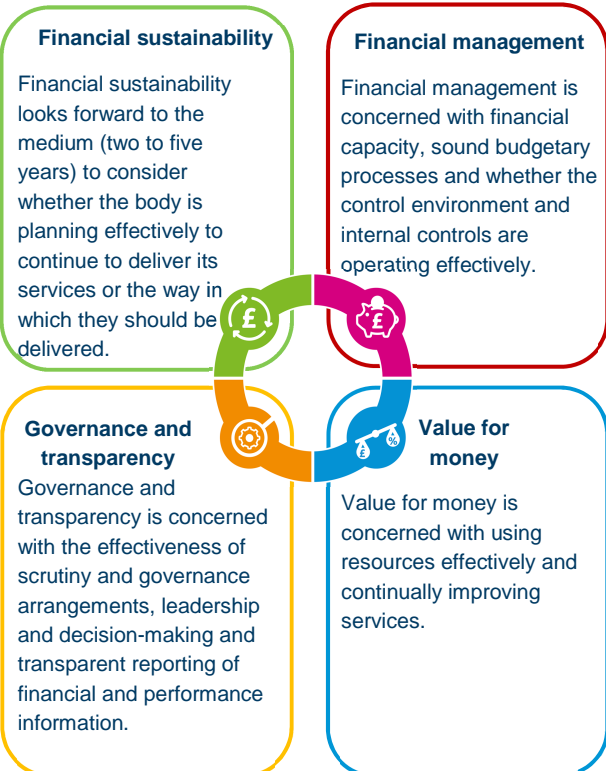
- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements;
- where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':
 - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
 - suitability and effectiveness of corporate governance arrangements; and
 - financial position and arrangements for securing financial sustainability.

11. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Wider scope audit work

12. The Code sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised below in Exhibit 1.

Exhibit 1: Audit dimensions of wider scope public audit



13. 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 also on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability projections.

14. Where the application of the full wider scope is judged by us not to be appropriate then our annual audit work on the wider scope is restricted to:

- Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement; and

- Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term.

15. Our assessment takes into account the size, nature and risks of Disclosure Scotland. Taking these factors into consideration, we have concluded that we will apply our full wider scope audit responsibilities.

Disclosure Scotland’s responsibilities

16. Disclosure Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives. Disclosure Scotland’s responsibilities are summarised below in Exhibit 2.

Exhibit 2 – Disclosure Scotland’s responsibilities

Area	Board’s responsibilities
<p>Annual report and accounts: Disclosure Scotland must prepare an annual report and accounts containing financial statements and other related reports.</p>	<p>Disclosure Scotland has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements.

<p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether Disclosure Scotland is planning effectively to continue to fulfill its functions in an affordable and sustainable manner.</p>	<p>Disclosure Scotland is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with any statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • How the organisation plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>It is Disclosure Scotland's responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>Disclosure Scotland is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is Disclosure Scotland's responsibility to establish arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>
<p>Governance and transparency: Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Disclosure Scotland, through its Chief Executive (as Accountable Officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Disclosure Scotland should involve those charged with governance in monitoring these arrangements.</p> <p>Disclosure Scotland is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

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Audit strategy

Audit strategy

Risk-based audit approach

17. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to Disclosure Scotland. This ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



18. Planning is a continuous process and our audit plans are therefore updated during the course of the audit to take account of developments as they arise.

Communications with those charged with governance

19. Auditing standards require us to make certain communications throughout the audit to those charged with governance. We have agreed with Disclosure Scotland that these communications will be through the Audit and Risk Committee (ARC).

Professional standards and guidance

20. We perform our audit of the financial statements in accordance with International Standards on Auditing (UK) (ISAs), the International Standard on Quality Control 1 (UK), Ethical Standards, and applicable Practice Notes and other guidance issued by the FRC.

Partnership working

21. We will coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies, recognising the increasing integration of service delivery and partnership working within the public sector.

Audit Scotland

22. Although we are independent of Audit Scotland and are responsible for forming our own views and opinions, we do work closely with Audit Scotland throughout the audit. This helps, for example, to identify common priorities and risks, treat consistently any issues arising that impact on a number of audited bodies, and further develop an efficient and effective approach to public audit. We will share information about identified risks, good practices and barriers to improvement so that lessons to be learnt and knowledge of what works can be disseminated to all relevant bodies.
23. Audit Scotland undertakes national performance audits on issues affecting Disclosure Scotland. We will review Disclosure Scotland's arrangements for taking action on any issues reported in the national performance reports which may have a local impact. We plan to assess the extent to which Disclosure Scotland uses the national performance reports as a means to help improve performance at the local level.
24. During the year we may also be required to provide information to Audit Scotland to support the national performance audits.

Internal audit

25. Disclosure Scotland's internal audit function is provided by the Scottish Government's internal audit department ("the IAD"). We are committed to avoiding duplication of audit effort and ensuring an efficient use of Disclosure Scotland's total audit resource. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource available to Disclosure Scotland is used efficiently and effectively.

Other inspection bodies

26. We plan to contribute to the 'whole organisation' approach to inspection through co-ordination amongst auditors, inspectors and other scrutiny bodies. Through enquiry of management as part of our initial planning discussions, we have not identified any other inspection work planned for 2017/18 which is directly relevant to our work, other than the work of internal audit and Audit Scotland. We will monitor this situation over the course of 2017/18 and update our plans as necessary.

4

Annual report and accounts

Annual report and accounts

Introduction

27. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of Disclosure Scotland's annual report and accounts.
28. The annual report and accounts comprise the financial statements, the performance report and the accountability report.

Approach to audit of financial statements

29. Our opinion on the financial statements will be based on:

Risk-based audit planning

30. We focus our work on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting the audit risk relating to each of the key systems on which the financial statements will be based.

An audit of key systems and internal controls

31. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements.
32. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and Disclosure Scotland's own policies and procedures.
33. We will take cognisance of any relevant internal audit reviews of systems and controls.
34. We will update the risk assessment following our evaluation of systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.

A final audit of the financial statements

35. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on the risk assessment.

36. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement, comply with the HM Treasury Financial Reporting Manual 2017-18 and give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder.

37. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

Independent auditor's report

38. Our opinion on the truth and fairness of the financial statements and the regularity of transactions will be set out in our independent auditor's report which will be included within the financial statements.

Materiality

39. 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.
40. Our initial assessment of materiality for the financial statements is £0.726 million (approximately 1.5% of Disclosure Scotland's 2016/17 gross income), which is considered one of the principal considerations for users of the financial statements when assessing financial performance. We will continue to review our assessment of materiality throughout our audit.
41. We set a performance materiality for each area of work which is based on a risk assessment for the area. We will perform audit procedures on all transactions, or groups of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be of significant risk of material misstatement.

42. We will report any misstatements identified through our audit that fall into one of the following categories:

- All material corrected misstatements;
- Uncorrected misstatements with a value in excess £14,513; and
- Other misstatements below the £14,513 threshold that we believe warrant reporting on qualitative grounds.

Area risk assessment	Weighting	Performance materiality
High	45%	£0.327 million
Medium	55%	£0.399 million
Low	70%	£0.508 million

Key audit risks

43. Auditing standards require that we inform the ARC of our assessment of the risk of material misstatement in the financial statements. We have set out our initial assessment below, including how the scope of our audit responds to those risks. We will provide an update to the ARC if our assessment changes significantly during the audit.

1. Revenue Recognition

Under ISA 240 (UK) - *The auditor's responsibilities relating to fraud in an audit of financial statements*, there is a presumed risk of fraud in relation to revenue recognition. The presumption is that Disclosure Scotland could adopt accounting policies or recognise income in a way that materially misstates Disclosure Scotland's financial performance.



44. We have concluded that the risk of fraud in relation to revenue recognition is present in Disclosure Scotland's core revenue streams. We will evaluate each material revenue stream and review the controls in place over revenue accounting. We will consider Disclosure Scotland's key revenue transactions and streams and carry out testing to confirm that the revenue recognition policy is appropriate and has been applied consistently throughout the year.

2. Expenditure Recognition

The FRC published Practice Note 10 which applies to the audit of financial statements for periods commencing after June 2016. The Practice Note recognises that most public sector bodies are net spending bodies and notes that there is an increased risk of material misstatement due to improper recognition of expenditure.



45. In response to this risk we will evaluate the significant expenditure streams at Disclosure Scotland (excluding payroll which we do not consider to be a significant risk area) and review the controls in place over accounting for expenditure. We will consider the key areas of expenditure and obtain evidence that the expenditure was recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.

3. Management Override

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 financial statements. This is treated as a presumed risk area in accordance with ISA 240 (UK).



46. In response to this risk we will review Disclosure Scotland's accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business were valid and accounted for correctly.

4. Classification of Transformation Project Expenditure

Disclosure Scotland's IT transformation project has continued to progress significantly in 2017/18. It is therefore expected material costs will be incurred in year. Disclosure Scotland have adopted an agile approach to the project, therefore several project stages/milestones will be completed by the 31 March 2018. There is therefore a risk that expenditure is incorrectly classified between revenue and capital, which could result in a material misstatement in the financial statements.



47. In response to this risk we will review the status of the IT project as at 31 March 2018 to ensure appropriate capitalisation policies have been adopted in line with IAS 16. We will test a sample of project expenditure transactions, and obtain evidence that they have been classified appropriately as either revenue or capital expenditure.

The performance report, accountability report and other information

48. The HM Treasury Government Financial Reporting Manual 2017-18 sets out the content required within the annual report and accounts. In addition to presenting our opinions over the financial statements our independent auditor's report will also presents our opinion on other aspects of the annual report and accounts:

Other information

49. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not express any form of assurance conclusion on the "other information" except as specifically stated below.

50. We read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our independent auditor's report.

The performance report

51. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It contains two sections:
- an overview of the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed during the year; and
 - a detailed performance summary of how the entity measures its performance.
52. Our independent auditor's report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

The accountability report

- 53.** The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity's governance structures and how they support the achievement of the entity's objectives.
 - A remuneration and staff report setting out staff numbers and costs as well as the entity's remuneration policy for directors and the remuneration awarded to directors.
 - A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
- 54.** Our independent auditor's report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.

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Wider scope audit

Wider Scope Audit

Introduction

- 55. 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.
- 56. We are committed to using the wider dimensions to target and provide assurance throughout our period of appointment. As with our financial statements audit, our wider scope audit approach is focused on the areas of highest risk. As part of our planning process we prepare a risk assessment highlighting audit risks relation to each of the four dimensions of wider scope public sector audit.
- 57. In 2017/18 we will also consider the following risk areas as they relate to Disclosure Scotland:
 - EU withdrawal;
 - New financial powers;
 - Ending of public sector pay cap;
 - Response to cyber security risks; and
 - Openness and transparency.
- 58. We issued six recommendations from our 2016/17 wider scope audit, as reported within our 2016/17 audit report. We will conduct a follow up review to ensure the recommendations have been appropriately actioned as part of our Interim work, and report findings within our Interim Update Report.
- 59. At this stage of our audit planning process, we have identified three significant risks to the wider scope dimension of our audit, as detailed below:



Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether Disclosure Scotland’s planning processes support the future delivery of services.

Disclosure Scotland responsibilities	Our audit approach
<p>Disclosure Scotland is responsible for putting in place proper arrangements to ensure their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Financial monitoring and reporting arrangements. • Compliance with financial requirements and targets. • The use of balances and reserves. • Plans to deal with uncertainty in the medium and long term. <p>The impact of planned policies and foreseeable developments.</p>	<p>During our 2017/18 audit we will consider Disclosure Scotland’s financial standing. This will involve a revision of the arrangements in place for short, medium and long term financial planning, budgetary control and financial reporting.</p> <p>It is important that such arrangements remain effective in order to properly control Disclosure Scotland’s operations and use of resources.</p>

Significant audit risk 5: Financial sustainability

As of January 2018, Disclosure Scotland has made significant progress in the transfer of all English and Welsh basic disclosures to the Disclosure Barring Service (DBS). This realignment of responsibility will result in a significant reduction in basic disclosure income, which will have direct significant consequences for the operational model of Disclosure Scotland, and for the future financial sustainability of the organisation.

Management's most recent financial projection for 2017/18 predicts a budgetary pressure of £5.6m. This has arisen due to the delay of the DBS transition, as well as a lower uptake than anticipated of disclosures actually being requested through DBS. We understand that the Scottish Government has indicated that this shortfall will be addressed in the Autumn budget.



- 60.** During our audit we will review Disclosure Scotland's short, medium and longer term financial plans and supporting financial models to determine the appropriateness and completeness of the plans and models prepared. We will review Disclosure Scotland's approach to short and longer term workforce planning, to account for the DBS transitions impact on the use of agency staff.



Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Disclosure Scotland responsibilities	Our audit approach
<p>It is Disclosure Scotland's responsibility to ensure that its financial affairs are conducted in a proper manner. Management are responsible, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance.</p> <p>Disclosure Scotland is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>It is Disclosure Scotland's responsibility to establish arrangements to prevent and detect fraud and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>	<p>During our 2017/18 audit we will review, conclude and report on the following:</p> <ul style="list-style-type: none"> • Whether Disclosure Scotland continues to have arrangements in place to ensure systems of internal control are operating effectively; • Whether Disclosure Scotland can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance; • How Disclosure Scotland has assured itself that its financial capacity and skills are appropriate; and • Whether Disclosure Scotland has continued to operate effective arrangements for the prevention and detection of fraud and corruption. <p>The IAD provides Disclosure Scotland's internal audit service. To avoid duplication of effort and to ensure an efficient audit process we will take cognisance of all of the work of internal audit.</p>



Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Disclosure Scotland responsibilities	Our audit approach
<p>Disclosure Scotland, through its Chief Executive (as Accountable Officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Disclosure Scotland should involve those charged with governance in monitoring these arrangements.</p> <p>Disclosure Scotland is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>	<p>We will continue to consider the effectiveness of Disclosure Scotland's governance framework and the extent to which the arrangements and management of Disclosure Scotland and committees comply with relevant good practice guidance.</p> <p>We will consider whether the information provided to Disclosure Scotland and committees is sufficient for members to assess the impact of decisions on resources and performance.</p> <p>Our work will include consideration of how risk management has been addressed within Disclosure Scotland. We will also consider Disclosure Scotland's internal audit arrangements to determine their role in examining the control systems established by management.</p>

Significant audit risk 6: General Data Protection Regulation (GDPR)

GDPR is an EU regulation intended to strengthen and unify data protection for all individuals within the EU. The regulation becomes enforceable from 25 May 2018, and will replace the data protection directive of 1995. GDPR will require Disclosure Scotland to alter its approach towards personal data. If appropriate procedures and controls in line with GDPR requirements fail to be implemented and a GDPR breach occurs, significant monetary sanctions can be imposed (2% of turnover). Due to the volume and scale of personal data used by Disclosure Scotland as part of daily operations, there is a significant risk that Disclosure Scotland may not have appropriate procedures and controls in place by the 28 May 2018 deadline.



61. During our audit we will review Disclosure Scotland's GDPR response plans, in order to determine if policies and procedures in place by 28 May 2018 are GDPR compliant.



Value for money

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

Disclosure Scotland responsibilities	Our audit approach
Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.	<p>We will work with Disclosure Scotland to identify and review evidence which demonstrates the achievement of value for money in the use of its resources.</p> <p>We will seek evidence from Disclosure Scotland that outcomes are improving and there is sufficient focus on improvement and the pace of it.</p> <p>Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that Disclosure Scotland may have a direct interest in.</p>

Significant audit risk 7: Value for Money

Disclosure Scotland has continued to make significant progress against its transformation programme in 2017/18. The delay in the DBS transition and the need to continue processing English and Welsh basic disclosures during 2017/18, has resulted in a requirement to negotiate a new contract with BT beyond 31 March 2018 to ensure service continuity until the programme fully matures. Disclosure Scotland obtained ministerial approval for £7 million for this new contract. The scale of the transformation project presents a significant value for money risk for Disclosure Scotland, as the delivery of a critical public service must be maintained throughout the period of significant transformation.

In addition, Disclosure Scotland has recently settled a dispute with its previous IT contractor. The dispute has settled amicably, without admission of liability on the part of either party. There is scope for Disclosure Scotland to review any lessons learned from this outcome and assess any associated value for money considerations.

62. During our audit we will review Disclosure Scotland's value for money arrangements. We will continue to monitor Disclosure Scotland's progress against the transformation projects key objectives and milestones, and review evidence which demonstrates the achievement of value for money in the use of Disclosure Scotland's resources.

63. We will also evaluate the settlement reached and assess Disclosure Scotland's evaluation of lessons learned and value for money considerations associated with that outcome.

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6

Audit outputs, timetable and fees

Audit Outputs, Timetable and Fees

Audit output	Format	Description	Target date
External audit plan	Report	This report sets out the scope of our audit for 2017/18.	February 2018
Interim Update Report	Report	If required, this report will summarise any significant findings from our interim work on accounting systems and corporate governance.	May 2018
Independent Auditor's Report	Report	This report will contain our opinions on the true and fair view of the annual accounts and on the regularity of transactions.	August 2018
Annual Report to Board and the Auditor General for Scotland	Report	At the conclusion of each year's audit we will issue an annual report setting out the nature and extent of our audit work for the year and summarising our opinions, conclusions and the significant issues arising from the work. This report will pull together all of our work on the use of resources, annual accounts and governance arrangements.	August 2018

Audit outputs

64. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. We will endeavour to supply a draft report within three weeks of completion of the fieldwork. We will require formal management responses within two weeks of receipt of the draft report. On occasion these timescales may need to be shortened, e.g. to meet ARC and certification deadlines.
65. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review progress against the action plans on a regular basis.

Audit fee

Composition of the audit fee	
Auditor remuneration – Scott-Moncrieff	£31,600
Pooled costs – Audit Scotland (AS)	£7,180
Audit support costs - AS	£1,620
Total expected fee	£40,400

66. Audit Scotland sets an expected fee for each audit carried out under appointment that assumes the audited body has:
- sound governance arrangements in place and operating effectively throughout the year;
 - prepares comprehensive and accurate unaudited accounts; and
 - meets the agreed timetable for the audit.
67. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body
68. Audit Scotland advises that fees must be agreed between the auditor and each audited body. Through the fee agreement process the auditor remuneration element of the fee may be varied by up to 10% above the expected level where significant local issues require additional work to be undertaken. In exceptional circumstances higher remuneration can be agreed with the prior agreement of Audit Scotland.

69. For 2017/18 we propose setting the audit fee at 6% above the Audit Scotland expected level to account for the degree of transformation change to be considered as part of the wider scope audit. The total audit fee of £40,400 remains consistent and unchanged from the 2016/17 audit fee, as set out in the table above.

70. The audit fee will cover:

- the 2017/18 audit work and outputs described in this plan;
- attendance at all Audit and Risk Committee meetings;
- access to advice and information on relevant audit issues; and

- a contribution towards Audit Scotland's pooled costs.

71. We assume receipt of the draft working papers at the outset of our on-site final audit visit. If the draft accounts and papers are late, or agreed management assurances are unavailable, we reserve the right to charge an additional fee for additional audit work. An additional fee will be required in relation to any other significant exercises not within our planned audit activity.

Audit timetable

72. The dates for our interim and final audits have been discussed with the Director or Corporate Services. A summary timetable, including audit outputs, is set out below:



7

Appendices

Appendix 1: Your Audit Team



Scott-Moncrieff is one of the largest independent accountancy firms in Scotland. We have 17 partners and over 200 staff operating from Edinburgh, Glasgow and Inverness. We are also part of the global Moore Stephens network.

Edinburgh	Glasgow	Inverness
Exchange Place 3 Semple Street Edinburgh EH3 8BL	25 Bothwell Street Glasgow G2 6NL	Scott-Moncrieff 10 Ardross Street Inverness IV3 5NS
(0131) 473 3500	(0141) 567 4500	(01463) 701 940

Extensive public sector audit experience

We have been external auditors within the public sector for over fifty years. We provide a comprehensive range of services to clients across the public sector, including NHS bodies, local authorities, central government bodies and FE Colleges. We also provide services to charities, schools, as well as private and public limited companies.

Your audit team

	<p>Gary Devlin Audit Partner gary.devlin@scott-moncrieff.com</p> <p>Gary is Head of the Firm's Public Sector Practice and has over 20 years' experience in undertaking audit work across a wide range of public sector organisations. Gary will have overall responsibility for the delivery of the assignment.</p>
	<p>Stacey Larkin Audit Assistant Manager stacey.larkin@scott-moncrieff.com</p> <p>Stacey is an Assistant Manager within our Public Sector Practise and has over 4 years of experience delivering public sector audits. Stacey will support Gary in the delivery of this assignment and be a key point of contact in addressing technical matters.</p>

Confirmation of independence

ISA (UK) 260 requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence. We confirm that we will comply with FRC's Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way. In particular there are and have been no relationships between Scott-Moncrieff and Disclosure Scotland, its Advisory Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 2: Statement of Understanding

Introduction

The purpose of this Statement of understanding is to clarify the terms of our appointment and the key responsibilities of the Disclosure Scotland ("Disclosure Scotland") and Scott-Moncrieff.

Annual accounts

We will require the annual accounts and supporting working papers for audit by the agreed date specified in the audit timetable. It is assumed that the relevant Board staff will have adequate time available to deal with audit queries and will be available up to the expected time of completion of the audit. We will issue a financial statement strategy which sets out roles, responsibilities and expectations in terms of audit deliverables. This document helps to ensure we can work together effectively to deliver an efficient and effective audit.

Scope of audit

As auditors we will take reasonable steps to plan and carry out the audit so as to meet the objectives and comply with the requirements of the Code of Audit Practice. Audit work will be planned and performed on the basis of our assessment of audit risks, so as to obtain such information and explanations as are considered necessary to provide sufficient evidence to meet the requirements of the Code of Audit Practice.

As auditors we do not act as a substitute for Disclosure Scotland's responsibility to establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

As part of our normal audit procedures, we will ask you to provide written confirmation of certain oral representations which we have received from Disclosure Scotland during the course of the audit on matters having a material effect on the annual accounts. This will take place by means of a letter of representation, which will require to be signed by the Chief Executive.

Internal audit

It is the responsibility of Disclosure Scotland to establish adequate internal audit arrangements. The audit fee is agreed on the basis that an effective internal audit function exists.

We will liaise with internal audit to ensure an efficient audit process.

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. We also require a historic record of instances of fraud or irregularity to be maintained and a summary to be made available to us after each year end.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants of Scotland.

Fees

We base our agreed fee upon the assumption that all of the required information for the audit is available within the agreed timetable. If the information is not available within the timetable we reserve the right to charge a fee for the additional time spent by our staff. The fee will depend upon the level of skill and responsibility of the staff involved. The indicative financial statements strategy referred to above is a key means for us to clarify our expectations in terms of quality, quantity and extent of working papers and supporting documentation.

Service

If at any time you would like to discuss with us how our service to you could be improved or if you are dissatisfied with the service you are receiving please let us know by contacting Chris Brown. If you are not satisfied, you should contact our Ethics Partner, Bernadette Higgins. In the event of your not being satisfied by our response, you may also wish to bring the matter to the attention of the Institute of Chartered Accountants of Scotland.

We undertake to look at any complaint carefully and promptly and to do all we can to explain the position to you.

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work. We will endeavour to supply a draft report within three weeks of the completion of the fieldwork of each element of work.

Any recommendations arising from our audit work will be included in an action plan. Management are

responsible for providing responses, including target dates for implementation and details of the responsible officer.

Management responses should be prepared and provided to us within two weeks of the receipt of the draft report.

These timescales may need to be truncated, e.g. to meet Audit and Risk Committee reporting deadline.

Agreement of terms

We shall be grateful if Disclosure Scotland's Audit and Risk Committee would consider and note this Statement of understanding. If the contents are not in accordance with your understanding of our terms of appointment, please let us know.



Scott-Moncrieff
business advisers and accountants

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