Scott-Moncrieff
business advisers and accountants

Disclosure Scotland

Annual report on the 2017/18 audit to the Board and the Auditor General for Scotland

July 2018

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Annual accounts audit

Disclosure Scotland's Audit and Risk Committee is scheduled to approve the annual accounts for 2017/18 on 16 August 2018 and the accounts will be submitted, together with this report, to the Scottish Government and Auditor General by 31 October 2018.

We intend to report that the financial statements of Disclosure Scotland for 2017/18 give a true and fair view of the state of Disclosure Scotland's affairs and of its net income for the year. We also intend to provide an unqualified opinion on the regularity of transactions and other prescribed matters within our independent auditor's report.

We confirm that the financial statements have been properly prepared in accordance with the 2017/18 Financial Reporting Manual (FReM) and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and Ministerial directions.

Key facts

- Transition of English and Welsh Basics to DBS occurred in January 2018, resulting in a significant loss of volumes which must be carefully managed against costs.
- Disclosure Scotland invested £7.9m in software development in the year as part of the Transformation Programme.
- Disclosure Scotland realised a total operating surplus of £7.3m in 2017-18.

Wider scope audit

The Code of Audit Practice frames the wider scope in terms of four dimensions. We summarise below our conclusions on each dimension, which remain consistent with our evaluation in 2016/17.

Financial sustainability

Disclosure Scotland demonstrates good arrangements for annual financial planning and monitoring. However, the Disclosure Scotland business model will require significant change following the transfer of processing responsibility for English and Welsh Basics volumes to DBS given the significant reduction in income and loss of economies of scale.

Financial management

Disclosure Scotland has effective budget monitoring arrangement in place for financial management, and returned a substantial excess to Scottish Government in the year.

Governance & transparency

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 appears effective and in compliance with the SPFM.

Value for money

Disclosure Scotland demonstrates a commitment to continuous improvement and continues to meet or exceed the majority of its performance indicators. The organisation is currently investing in IT to meet the requirements of its new operating model and continues to face significant challenges in the delivery of the Transformation Programme.

Conclusion

This report concludes our audit for 2017/18. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK and Ireland) and Ethical Standards.

Scott-Moncrieff, July 2018

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Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Disclosure Scotland for 2017/18.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice (May 2016). This report also fulfils the requirements of International Standards on Auditing (UK) 260: Communication with those charged with governance.

At Disclosure Scotland the Audit and Risk Committee has been designated as "those charged with governance".

Introduction

1. This report summarises our findings from the 2017/18 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 on 27 February 2018. The core elements of our audit work in 2017/18 have been:

- an interim audit of Disclosure Scotland's key financial systems and governance arrangements;
- an audit of Disclosure Scotland's 2017/18 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.

Exhibit 1: Audit Dimensions within the Code of Audit Practice

Source: Audit Scotland Code of Audit Practice, May 2016

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.

Confirmation of independence

6. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

7. We confirm that we have complied with the Financial Reporting Council's (FRC) Ethical Standards. In our professional judgement, the audit process is independent and our objectivity has not been compromised in any way.

8. The audit fee reported in our external audit plan was £40,400. In addition to our standard audit work Scott-Moncrieff delivered non-audit services to the Disclosure Scotland Board in May 2018.

9. This work did not involve management decision making and was undertaken by an independent team. The audit team had no involvement in the non-audit services and applied appropriate safeguards to maintain our independence.

10. In line with Audit Scotland planning guidance, approval was obtained from the SM ethics partner and Audit Scotland.

Adding value through the audit

11. 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. Examples include:

    - Providing support by facilitating a risk workshop for the Board in May 2018; and
    - Providing ad hoc advice in the year, such as early discussions relating to implementation of the new ledger system.

Feedback

12. 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*

13. While this report is addressed to Disclosure Scotland, it will be published on Audit Scotland's website www.audit-scotland.gov.uk

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Annual accounts

Disclosure Scotland's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

In this section we summarise the findings from our audit of the 2017/18 annual report and accounts.

Annual accounts

The 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 4.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

14. The annual accounts for the year ended 31 March 2018 are to be approved by Disclosure Scotland's Audit and Risk Committee on 16 August 2018. 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.

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

Appropriate administrative processes were in place

16. We received high quality draft financial statements and supporting papers, in line with our agreed audit timetable. Our thanks go to management and staff for their assistance.

17. 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 31 October 2018.

Our assessment of risks of material misstatement

18. 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 34. This was due to movement of our benchmark between the prior year figure used at planning to the actual figure. 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 four audit risks below.

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

1. 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 revenue recognition. The presumption is that the Disclosure Scotland could adopt accounting policies or recognise income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2017/18 External Audit Plan

19. We conducted an analysis on Disclosure Scotland's revenue streams and reported no control weaknesses or deficiencies in our Interim Audit Report. We conducted substantive sample testing and identified no errors or matters to report.

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

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

2. Risk of fraud in the recognition of expenditure

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.

Excerpt from the 2017/18 External Audit Plan

21. We conducted an analysis on Disclosure Scotland's expenditure streams and reported no control weaknesses or deficiencies in our Interim Audit Report. We conducted substantive sample testing and identified no errors or matters to report.

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

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 (UK) 240 – The auditor's responsibilities relating to fraud in an audit of financial statements.

Excerpt from the 2017/18 External Audit Plan

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.

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.

Excerpt from the 2017/18 External Audit Plan

25. Disclosure Scotland capitalised £7.9m of expenditure into intangible assets under construction in 2017/18, all of which related to the IT Transformation programme. In order to determine whether this was capitalised appropriately, we carried out sample testing of intangible assets under construction additions.

26. In line with the Agile approach, different parts of the system will come into use at different times. As part of our review of assets, we considered:

Exhibit 2: Our assessment of risks of material misstatement and how the scope of our audit responded to those risks

- Whether assets are separable;
- If so, were anyin use;
- If any are in use, whether they had been moved out of assets under construction.

We found that no parts of the system are currently in use; therefore classification as assets under construction continues to be appropriate.

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

An overview of the scope of our audit

28. We detailed the scope of our audit in our external audit plan.

29. 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 Agency. 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.

30. 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 audit approach on performing a review of the key accounting systems in place, substantive tests and detailed analytical review.

31. 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.

An application of materiality

32. 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.

33. Our initial assessment of materiality for the annual report and accounts during our planning work was £725,625 being 1.5% of prior year Disclosure Scotland annual income. Our assessment of materiality is set with reference to a range of benchmarks. On receipt of the draft 2017/18 accounts, we reassessed our materiality figure based on actual 2017/18 income. We did not identify any control deficiencies during the course of our interim audit, and we were not aware of any significant issues that would warrant a lower threshold, so our threshold remained unchanged from the planning threshold. Our revised materiality is £714,630.

34. 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	40%	£321,584
Medium	55%	£393,047

Low	75%	£500,241

35. 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 £14,293; and
- Misstatements below £14,293 we believe warrant reporting on qualitative grounds.

Accounting and Internal Control systems

36. 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

37. 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.

38. The disclosures in the Governance Statement reflect internal audit's conclusion for 2017/18.

Areas of the Remuneration and Staff Report subject to audit opinion

39. 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.

40. 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.

No 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.

43. We reviewed the Board and Audit and Risk Committee minutes for the 2017/18 period.

44. We did not identify any undisclosed interests.

Regularity Opinion

45. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.

46. We did not identify any instances of irregular activity.

Other matters and audit adjustments

47. We identified 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.

48. No other matters were identified.

Whole of Government Accounts

49. 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.

50. We are not required to audit this section of the pack as Disclosure Scotland is below the de-minimis level of audit of £500 million of gross expenditure.

51. Disclosure Scotland are still required to submit an audited return to the Scottish Government. We have received the unaudited pack and expect to meet the Scottish Government deadline.

52. 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 area of estimates and judgements is asset depreciation.
The potential effect on the annual accounts 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.	While some disclosure and presentational adjustments were made through the audit process, 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 is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial management

Disclosure Scotland has effective budget monitoring arrangement in place for financial management, and returned a substantial excess to Scottish Government in the year.

Financial performance

53. 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 and capability at establishment level. Key elements of these areas are discussed in more detail below.

Disclosure Scotland's financial performance in 2017/18

Revenue	Actual Outturn £m	Revised Budget £m	Over/(Underspend) £m	Over/(Underspend) %
DEL Resource	(7,725)	(1.280)	(5.995)	(468%)
DEL Capital	8,048	10,445	(2.396)	(23%)
Total	323	9,165	8,391	

54. Disclosure Scotland generates 100% of its income from disclosure fees, and in 2017-18 was a net funder. As a result, at the revised budget Disclosure Scotland had a negative allocation of £1.6 million from the Scottish Government, 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 by the Scottish Government.

55. The transfer of English and Welsh Basics to the DBS was originally scheduled to occur in December 2016. However, there were delays in the readiness of DBS to fully assume its processing responsibilities and the transfer did not occur until January 2018.

56. English and Welsh disclosure caseload accounted for approximately 68% of Basic disclosure requests in 2017-18, therefore income in the first nine months of the financial year was higher than budgeted. As a result, Disclosure Scotland provided Scottish Government with a £6 million excess over a negative budget allocation of £1.3 million, realising a total operating surplus of £7.3 million.

57. Disclosure Scotland was initially allocated £7.6 million capital DEL expenditure to fund phase 2 of the transformation programme. At the autumn budget revision, updated forecasts led to an increase in the capital DEL budget to £10.45 million. £8 million was utilised in 2017/18 resulting in a £2.4 million underspend.

The further underspend mainly resulted from the need to change the strategy for product development in the final months of the financial year, as well as achievement of value for money objectives.

Disclosure Scotland has effective budget setting and monitoring arrangements

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

59. 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 discussion with key clients The Financial models are updated monthly using gathered demand intelligence based on trend analysis and regular discussions with key clients.

60. The Director 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.

61. The monitoring reports provide sufficient explanations for any significant variances against budget.

62. Due to the demand led 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), and conclude that financial management of the organisation is effective.

Use of resources

63. Disclosure Scotland's key cost driver is staff costs which accounted for 49% of gross expenditure in 2017/18. Agency staff costs accounts for 44% of total staff costs (change of 4% from prior year). The deployment of agency staff has been a key element of Disclosure Scotland's workforce strategy leading up to the DBS transition in January 2018. The ability to utilise agency staff to meet demand during the transition was key to keeping resources balanced against demand for services.

64. A team of business analysts within Disclosure Scotland provide the Workforce Planning Group with a detailed workforce plan on a quarterly basis. This splits out staffing by function as well as by grade and status (ie temporary, contractor or agency) and profiles staffing requirements for each category. This helps to ensure that resourcing is kept in line with current business model needs, however Disclosure Scotland rely on agency staff to flex their resource availability against requirements. This will need to be considered going forward as budgets tighten and agency costs represent a high cost base.

Prevention and detection of fraud and irregularity

65. 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

66. The National Fraud Initiative (NFI) is a counter-fraud exercise co-ordinated by Audit Scotland working together with a range of Scottish public bodies, external auditors and overseen by the Cabinet Office for the UK as a whole to identify fraud and error.

67. The most recent NFI exercise had a completion date of 31 March 2018. Disclosure Scotland participates in the NFI through the Scottish Government Payroll Division.

68. 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. This is consistent with our understanding of Disclosure Scotland's role in participating in the NFI exercise.

4

Financial sustainability

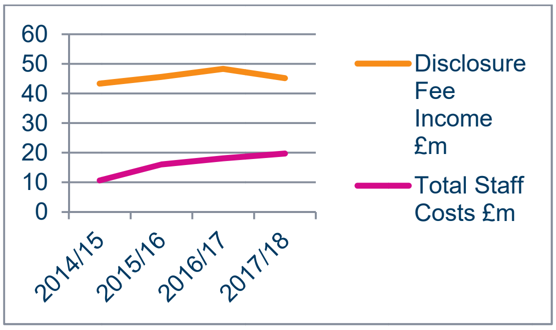
Financial sustainability looks forward to the medium and longer term to consider whether Disclosure Scotland is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial sustainability

Disclosure Scotland demonstrates good arrangements for annual financial planning and monitoring. However, the Disclosure Scotland business model will require significant change following the transfer of processing responsibility for English and Welsh Basics volumes to DBS given the significant reduction in income and loss of economies of scale.

Financial planning

69. As previously stated, Disclosure fee income comprised 100% of Disclosure Scotland's resource funds in 2017-18. Disclosure demands and disclosure fee income have generally increased every year for the past several years, with 2017/18 as the only exception. This is because a number of agency and temporary staff were retained per to manage the anticipated business transformation following the DBS transition.



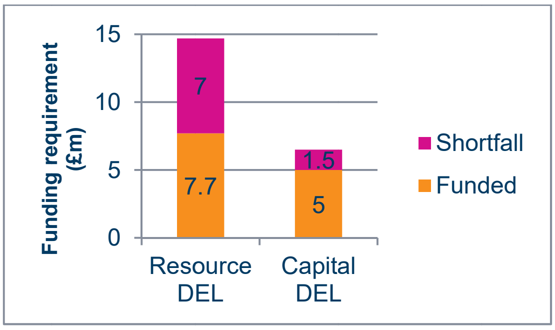
70. It is clear from the above trends that the number of applications processed, income received and staff costs flex to coincide with each other. The use of temporary agency staff aligns with Disclosure Scotland's business model to proactively manage seasonal trends in demand. The use of agency staff has allowed Disclosure Scotland to offset the reduction in income for the last three months of the financial year against reduced agency staff costs. After DBS transition in January 2018, staff numbers were phased down and Disclosure Scotland ceased to operate in a 24-hour shift model, moving to 7am-7pm core hours working. This is a good early indicator that Disclosure Scotland will be able to control the drop off in income.

71. Disclosure Scotland has a long term financial model for 5 years to 2022-23. The model was produced by the Corporate Services Directorate and projects annual income, expenditure and Scottish Government funding requirements.

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

2018-19 Funding

73. In 2018-19, the Scottish Government has allocated Disclosure Scotland a budget of £15.7 million. This is comprised of £7.7 million net surplus of Resource DEL (cash) £5 million of Capital DEL and £3 million of non-cash resource DEL. Funding agreed against Disclosure Scotland's forecasts is outlined below:



74. Given reductions in Disclosure fee income as a result of the transfers of English and Welsh Basics to DBS, Disclosure Scotland are forecasting a shortfall in their resource DEL of £7 million. The Scottish Government has agreed to meet the shortfall but will not make a budget adjustment until the Spring Budget Revision.

75. Disclosure Scotland have estimated the costs to complete all parts of the Transformation Programme as £8.1 million in 2018-19. Capital funding for 2018/19 is £5 million, and as such Disclosure Scotland have lodged a £3.1 million pressure with the Scottish Government. 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.

76. Discussions with the Scottish Government regarding funding gaps are on-going, though they have received confirmation that the capital shortfall will be met. We will continue to monitor communication updates between the Scottish Government and Disclosure Scotland as part of the 2018/19 audit.

77. We have no material concerns regarding the financial sustainability of Disclosure Scotland. However we do recognise the significant levels of uncertainty and scale and speed of 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 2018-19 audit.

Looking forward

78. As of January 2018, processing of English and Welsh Basic disclosures was transferred to DBS. This has a significant impact on the case volumes handled by Disclosure Scotland, with 68% of Basic disclosure applications received in 2017-18 relating to English and Welsh applicants. This has a resulting impact on Disclosure Scotland's income, and has had to be carefully managed via reduction of agency staffing levels to meet the reduced activity levels.

79. Disclosure Scotland has previously been a net provider of funds to the Scottish Government. However the loss of economies of scale brought about by the transfer, as well as the short term costs of the Transformation Programme, introduces a risk to Disclosure Scotland's financial sustainability, with a funding gap identified for 2018-19 and 2019-20. Disclosure fees are set by Scottish ministers, and last updated in 2011. The impact of DBS transition may lead to the requirement to review disclosure fees. PVG applications are provided for free to Volunteer Scotland Disclosure Services which account for 20% of all PVG checks, which provides free PVG checks to volunteers within the regulated workforce. While Disclosure Scotland does receive some grant in aid including a contribution from the Health Portfolio, it does not cover the total cost. A review of the PVG scheme is currently in progress, 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 on impacting financial sustainability in future audits as this comes into effect.

80. Disclosure Scotland has triggered its four month notice to exit the BT contract, with services being terminated at the end of September 2018. Further extension of the contract would result in considerable costs as annual fixed costs would be charged regardless of the duration of the extension. Management considers the risk of extending the BT contract beyond the September exit date to be remote. We will monitor the position as part of our review of post balance sheet events up to the point the financial statements are finalised.

5

Governance and transparency

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

Governance and transparency

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 appears effective and in compliance with the SPFM.

Disclosure Scotland Governance Structure

81. The Chief Executive is the Accountable Officer for Disclosure Scotland, and is responsible for all matters delegated by the Principal Accountable Officer, as set out in the Disclosure Scotland Framework Document. It was noted in our prior year audit that the Framework document was last reviewed in 2015 and is outdated to reflect terms of reference changes which have since occurred. We understand that a review of the governing groups was carried out in year, the output of which was to be reflected in the updated Framework. This has contributed to delays meaning that the update is still in progress. This point was initially raised in the prior year, and we will continue to monitor progress via the management action plan.

82. 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).

83. The ARC is chaired by a non-executive member of the Disclosure Scotland Board. The Disclosure Scotland Board currently has three non-executive members. Having addressed a point raised in our prior year audit, a non-executive member with relevant financial experience has been recruited to the Board, and the two Board members due to come to the end of their terms have agreed to extensions.

84. From June 2018, Disclosure Scotland have restructured their management groups as follows:

- The Leadership Team, formerly the Senior Leadership Team, will focus on the future of the Agency and make decisions on strategic issues. In essence, the Leadership team deal with the strategic matters facing Disclosure Scotland.

85. The Performance Team (previously the Senior Management Team),will focus on operational management and leadership across the organisation. This will be no longer be attended by the directors, but attendance will be expanded to those with a key role in the organisation – for instance, leaders in governance, business analysis and Transformation. The membership of the Performance Team will be regularly reviewed to ensure that relevant individuals are present.

2018-2021 Corporate Plan

86. 2017-18 was the final year of operation of the 3 year 2015-2018 Corporate Plan.

87. At the time of writing, Disclosure Scotland are in the process of developing the new 2018-2021 corporate plan, which strives for the continuing vision of:

"Protecting Scotland's People: shaping a safer environment to live and work'.

88. Disclosure Scotland have four strategic goals laid out in the draft plan as follows:

- to deliver a fair, rigorous and supporting safeguarding service;
- to have a fast, accessible and accurate digital service;
- to provide excellent customer experience; and
- to make Disclosure Scotland a great place to work.

Risk Management

89. Disclosure Scotland has a risk management framework in place that outlines its processes for identifying and managing risk, including maintaining the Corporate Risk Register. This framework is overseen by the Director of Protection Services and Policy and the Corporate Risk Review Group.

90. The framework also contains high level statements on the organisation's risk appetite. Risk appetite is the level of risk an organisation is willing to accept before action is required to prevent or mitigate risk.

91. In May 2018, Disclosure Scotland commissioned Scott-Moncrieff's to facilitate a risk appetite workshop to the Board of Management to set the organisation's risk appetite. The workshop was attended by the Board of Management. Further detail as this relates to our independence is included at Appendix 2.

92. Following the workshop, the Board's approved risk appetite is set out below:

- Sustainability risk: cautious appetite;
- Information risk: averse appetite;
- Regulatory risk: minimalist appetite;
- Innovation risk: hungry appetite; and
- Service delivery risk: minimalist/cautious appetite.

93. We have no issues to report in relation to Disclosure Scotland's Risk Management Arrangements

Internal Audit

94. An effective internal audit service is an important element of Disclosure Scotland's governance arrangements. Disclosure Scotland's internal audit function is delivered by the Scottish Government's Internal Audit Directorate (IAD). During our audit we considered the work of internal audit wherever possible to avoid duplication of effort and make the most efficient use of the Board's total audit resource.

95. To facilitate efficiency across a range of external audit appointments, Audit Scotland reviews the service provided by the Scottish Government Internal Audit Directorate. In 2017/18 Audit Scotland reported that the Scottish Government Internal Audit Directorate were not compliant with the Public Sector Internal Audit Standards in a number of areas covering audit planning, documentation, audit reporting and management review. However, Audit Scotland did not identify any internal audit reports where the underlying evidence would suggest an incorrect audit opinion or conclusion.

Cyber Security

96. In May 2017, a number of bodies across Scotland were impacted by the Wannacry global ransomware attack. In response to this the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18.

97. The action plan outlines a number of requirements that public bodies should be taking forward. This includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018. No issues have been reported which would impact Disclosure Scotland's meeting the deadline, with Certified Cyber Essentials Gap Analysis scheduled to be carried out this year.

98. Having a resilient cyber security environment in place is a key factor in the success of the Transformation Programme. This is because access to police data is a crucial element of the service and Disclosure Scotland must provide sufficient assurance to Police Scotland and the Home Office that their IT security is robust before this will be granted. In service of this, Disclosure Scotland have contracted a third party IT Healthcheck which will be presented to the Home Office and Police Scotland. A decision is expected to be reached by the 20th July. Based on previous IT Healthchecks this is expected to be a positive outcome.

General Data Protection Regulations

99. The General Data Protection Regulations (the Regulations) came into force in the UK on 25 May 2018. The Regulations replaces the Data Protection Act 1998 and as well as strengthening existing regulations the Act has brought in new legislative duties for the Board. The Regulations bring significant potential penalties for non-compliance therefore increasing the importance of compliance.

100. Disclosure Scotland used guidance issued by the Information Commissioner's Office to develop an action plan to ensure compliance with the new regulations.

101. Compliance with the Regulations is an ongoing process, which we will monitor as part of our annual audit procedures. We have not identified any significant risks to compliance with the Regulations at this stage.

EU withdrawal

102. Audit Scotland has identified EU withdrawal as an emerging significant risk facing public bodies across Scotland. Three streams of potential impact were identified:

- Workforce
- Funding
- Regulation

103. Disclosure Scotland have not formally considered the impact of any of the funding or regulation streams, however from the assessment carried out as part of the audit no significant implications have been identified.

104. From our work across other public bodies we are aware that the impact of the EU withdrawal on workforce is deemed to be a risk. Disclosure Scotland do carry out detailed workforce planning in order to determine their resource requirements, and as part of the Scottish Government using an HR shared services model would expect any detailed consideration of availability to be happening at the centre.

Standards of Conduct

105. 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.

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Value for money

Value for money is concerned with using resources effectively and continually improving services. In this section we report on our audit work as it relates to Disclosure Scotland's own reporting of its performance.

Value for money

Disclosure Scotland demonstrates a commitment to continuous improvement and continues to meet or exceed the majority of its performance indicators. The organisation is currently investing in IT to meet the requirements of its new operating model and continues to face significant challenges in the delivery of the Transformation Programme.

2017/18 Performance

106. Disclosure Scotland's 2017-18 performance is measured against actions presented in the 2017-18 annual business plan (ABP). These actions support the four Strategic Priorities set out in the 2015-18 Corporate Plan.

107. The 2017-18 ABP presents success objectives of how Disclosure Scotland will achieve their strategic objectives set in the 2015-18 Corporate Plan.

108. 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 99.87% of disclosures within 14 days in 2017/18.

Performance Management Framework

109. Disclosure Scotland monitor performance against operational KPIs, set out in Disclosure Scotland's balance scorecard (see **Figure 1**). Progress is reported as a standing agenda item at every Board meeting. This is supported by five more detailed scorecards, which are included in the Board papers for information.

110. Following our recommendation in the prior year regarding the Performance Management Framework, this has been developed in tandem with Corporate Plan 2018-21.

IT Transformation Programme

111. Disclosure Scotland continues to demonstrate commitment to continuous improvement through the Transformation Programme. Disclosure Scotland are striving to transform the organisation and replace their IT systems.

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

113. There is a risk that in agile developments, fruitless payments may occur due to continual re-evaluation of approach, however only one fruitless payment occurred in year with a value of £158k. This was in relation to a piece of mitigation work undertaken by BT for the Programme, however a change in strategy resulted in this not being implemented.

114. Disclosure Scotland has triggered its four month notice to exit the BT contract, with services being terminated at the end of September 2018. Extension of the contract would result in considerable costs as annual fixed costs would be charged regardless of the duration of the extension. The Transformation Programme Board is working to two delivery plans to mitigate this risk.

115. The Amber plan aims to get software fully implemented by the BT exit date. The plan has been recognised as ambitious. This is the target that the project team are working towards.

116. The Green plan is considered more realistic, and incorporates some period of manual processing of applications in the period between the end of the BT contract and the launch of the new software.

117. Manual processing is likely to slow down the disclosure process, however as Disclosure

Scotland are currently well within their 14 day target management are confident that this will continue to be adhered to throughout the manual processing period. It should be noted however, that September and October are peak processing periods for Disclosure Scotland and this is likely to present a challenge. We will comment further on the outcome of this in the course of our 2018-19 audit work.

118. Disclosure Scotland demonstrates a commitment to continuous improvement and continues to meet or exceed the majority of its performance indicators.

Figure 1 - Disclosure Scotland Balanced Scorecard for 2017-18

Disclosure Scotland Balanced Scorecard for March 2018

Key Performance Indicator	Target	YTD
Business Processes / Safeguarding		
1. % of certificates issued in 14 calendar days	≥90%	**99.87%**
2. Number of red risks on the Corporate Risk Register as at 31st March 2018 (residual Risk)	0	**0**
3. % certificates issued containing accurate personal information	≥99.87%	**99.94%**
4. % of PVG Initial Consideration cases completed within agreed timescales	≥95%	**95.6%**
Customers/Stakeholders		
5. % of transactions completed online	Increase over the year	**75%**
6. % of complaints resolved at Stage 1 within 5 working days	≥95%	**98.04%**
Financial Performance		
7. Resource DEL Cash: Income less Expenditure	≥100%	**113.9%**
Organisational Capacity		
14. Average Working Days Lost per FTE over last 12 months (SG only)*	≤ 7 days/FTE	**11.4**
By Exception Performance Indicators	**Target**	**YTD**
9. % of FOI responded to within timescale	>85%	**94.4%**

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Appendices

Appendix 1: Follow up of prior year actions

Our action plan details the weaknesses and opportunities for improvement that we have identified during our audit. Please note that the only point raised in the year was during our interim audit; this has since been addressed.

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 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	Explanation
Grade 5	Very high risk exposure - Major concerns requiring Board attention.
Grade 4	High risk exposure - Material observations requiring 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	Previous Management Comments	2017/18 year-end update
Financial Sustainability **Grade 3**	**Issue identified** 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.	**Management comments:** Key stakeholders in the Scottish Government are aware of the financial position in regard to the litigation. We will ensure that this dialogue continues. **Responsible Officer:** Director of Corporate Services **Completion date:** N/A; Keep in view only	**Update for final audit:** The dispute has settled amicably, without admission of liability on the part of either party. **Completion date:** 22 November 2017

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Governance: Framework Document **Grade 2**	**Issue identified** 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.	**Original management comment:** Agreed. The Framework Document is currently under review and will be amended to reflect Disclosure Scotland's governance arrangements. Responsible officer and Target Date: Director of Corporate Services – End December 2017 **Update from Interim Report:** A review had been conducted and draft format prepared, however DS Board commissioned a review of the governing groups (DS Board, SLT and SMT). This impacts on the Framework Document therefore completion of the Framework review was postponed until the review of the governing groups was finalised. **Responsible Officer:** Director of Corporate Services **Completion date:** End December 2017	**Update for final audit:** The review of the groups has been completed, however the terms of reference of the new performance team has not been agreed. Once this has been agreed the review of the Framework document can be completed as I have reviewed everything else in line with the new model framework guidance. **Completion date:** Target completion rescheduled to end August 2018

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Governance: Non Executive Members **Grade 3**	**Issue identified** The Disclosure Scotland Board currently has three non-executive members. One of whom 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.	**Original management comment:** A recruitment exercise is currently being undertaken to secure a nonexecutive board member with relevant financial experience. Pending successful outcomes / checks it is anticipated that the new board member will be appointed by September 2017. **Responsible Officer:** Director of Corporate Services **Completion date:** 31 December 2017	**Update for final audit:** DS has secured the services of a NEBM with financial expertise. His contract commenced on 18 December 2017. **Completion date:** 27 February 2018

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Governance: Non Executive Members **Grade 3**	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.	**Original management comment:** 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. **Responsible Officer:** Director of Corporate Services **Completion date:** 30 November 2017	**Update for final audit:** A discussion has taken place between the 2 Non-Executives and CE. As a result the Non-Executives have agreed to an extension of their contracts. Revised contracts have been issued. **Completion date:** 22 November 2017

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Value for Money : Strategic Performance Management **Grade 3**	**Issue identified** 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.	**Original management comment:** Will review as part of the Corporate Planning and Reporting process. **Responsible Officer:** Director of Corporate Service **Completion date:** 30 June 2018	**Update for final audit:** This is still ongoing and the ARC will be advised that first draft has been created and reviewed with on-going changes being made: The first draft is complete and was provided to the Leadership Team (LT) on 27/06/2018 for internal review. Target date has moved by three months to 30/09/18. We are moving this through slowly and methodically with continued review so we end up with the right product that is fit for our own purposes. **Target completion date:** 30 September 2018

Action plan point	Issue & Recommendation	Previous Management Comments	2017/18 year-end update
Value for Money: Strategic Performance Management **Grade 2**	**Issue identified** 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.	**Original management comment:** Reporting process and frequency will be reviewed to determine sufficiency. Any new agreed ways of working will be embedded as applicable. **Responsible Officer:** Director of Corporate Service **Completion date:** End of December 2017	**Update for final audit:** A new monitoring template and process was developed and piloted during September 2017. Following feedback through the pilot, amendments were made to the process and a revised paper was issued to the DS Board and endorsed on 18/12/17. This revised format will continue and be improved. **Implementation date:** 27 February 2018

Appendix 2: 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 directions 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 Board 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 board’s affairs as at 31 March 2018 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 2017-18 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 2017-18 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 2017-18 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.

In May 2017, Scott-Moncrieff provided non-audit services to the Disclosure Scotland Board. This was notified to Audit Scotland and approval obtained.

Scott-Moncrieff
business advisers and accountants