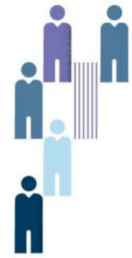

Disclosure Scotland

2018/19 Annual Audit Report to the Board and the Auditor General for Scotland

August 2019

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1. Key messages

Annual accounts audit

Disclosure Scotland's annual report and accounts for the year ended 31 March 2019 were approved by Disclosure Scotland's Audit and Risk Committee (ARC) on 20 August 2019 and authorised by the Accountable Officer on 26 August 2019.

We are due to report within our independent auditor's report unqualified opinions on the annual accounts, the regularity of transactions and on other prescribed matters. There were no matters which we are required to report by exception.

The annual report and accounts and supporting schedules were of a good standard. Our thanks go to management and staff at Disclosure Scotland for their assistance with our work.

Wider scope audit

As outlined in our External Audit Plan, our annual audit work in respect of our wider scope audit responsibilities was restricted to:

- audit work to allow conclusions to be made on the appropriateness of the disclosures in the Annual Governance Statement;
- consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term; and
- review of progress of Disclosure Scotland's Transformation Project.

Our conclusions and key observations are set out below:

Governance statement

- We are satisfied that the Governance Statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements.
- Disclosure Scotland has appropriate systems in place to record, process, summarise and report financial and other relevant data. We have not identified any significant weaknesses or governance issues in Disclosure Scotland's accounting and systems of internal financial control.

Financial sustainability

- The 2019/20 Scottish Government budget announcement resulted in a 23% reduction in funding for Disclosure Scotland which translates to a funding gap of £16.1million. In 2018/19 budgetary pressures were resolved as part of Scottish Government's Spring Budget Review process for 2018/19. Disclosure Scotland understands that the budgetary pressures of £16.1million will be addressed similarly through the budget review process. There is a higher risk that financial pressures will be greater than budgeted due to the uncertainty resulting from the Transformation Programme implementation in 2019/20.
- On 1 April 2022 the new Disclosure (Scotland) Bill is due to come into effect. A key feature of the Bill is the implementation of a new fee charging regime to support Disclosure Scotland becoming a self-funding agency. Disclosure Scotland has undertaken significant work in terms of financial modelling to ensure the organisation will remain financially sustainable following the implementation of the Bill.

Disclosure Scotland's Transformation Project

- Disclosure Scotland has embarked on ambitious circa £75 million project to transform its arrangements for processing disclosure applications across the organisation. This IT led programme will transition the organisation away from the current, ageing BT platform to a more bespoke and modern cloud-based system, leading to significant improvements and efficiency in how the organisation receives, processes and responds to all disclosure applications.
- Our review of this project has found that Disclosure Scotland has prioritised the management of safeguarding risk throughout the Transformation Programme to ensure applications for disclosure clearance can continue to be processed effectively and in a timely way.
- In this context, our audit has identified weaknesses in the overall governance arrangements that support the programme and in the financial management of the programme. In particular, the relative roles and responsibilities of the Disclosure Scotland Leadership Team (when acting in a programme capacity) and the Transformation Programme Board have not been sufficiently clear.
- Whilst recognising that there has been some high-level financial reporting on the programme, the first detailed project financial reports were prepared until May 2019. At this point the project was already projecting an overspend against its original budget of £19 million (circa 34 %). As a result, we have concluded that the financial management arrangements associated with this project have not been sufficient for a programme of this scale and complexity.
- Our audit has confirmed that the 'optimism bias' applied in developing the budget for the Transformation Programme was set at the lowest level available per the Treasury Green Book guidance. We do not regard this level of optimism bias as appropriate for a programme of this scale and complexity and this may partly explain the projected overspend.

Conclusion

This report concludes our audit for 2018/19. Our work has been performed in accordance with the Audit Scotland Code of Audit Practice, International Standards on Auditing (UK) and Ethical Standards.

Scott-Moncrieff
August 2019

2. Introduction

This report is presented to those charged with governance and the Auditor General for Scotland and concludes our audit of Disclosure Scotland for 2018/19.

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 Accountable Officer and the Audit and Risk Committee has been designated as "those charged with governance".

Introduction

1. This report summarises the findings from our 2018/19 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 at the outset of our audit. The core elements of our work include:

- an audit of the 2018/19 annual report and accounts and related matters;
- consideration of Disclosure Scotland's arrangements against the audit dimensions within the Code of Audit Practice (Exhibit 1); and
- any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice

3. Disclosure Scotland is responsible for preparing annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified 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 annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

4. The 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 on appropriate actions.

5. We discussed and agreed the content of this report with the Chief Executive, Director of Corporate Services and Head of Finance and Analytical Services. We would like to thank all management and staff for their co-operation and assistance during our audit.

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 we have complied with the Financial Reporting Council's (FRC) Revised Ethical Standard (June 2016). In our professional judgement, the audit process is independent, and our objectivity has not been compromised in any way.

8. We set out in Appendix 1 our assessment and confirmation of independence.

Adding value through the audit

9. All of our clients 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.

Feedback

10. 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

11. This report is addressed to Disclosure Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

3. Annual report and 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 2018/19 annual report and accounts.

Annual report and accounts

An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2019 were considered and approved by the Audit and Risk Committee on 20 August 2019. We report unqualified opinions within our independent auditor's report. We did not identify any significant adjustments to the unaudited annual report and accounts.

Disclosure Scotland has good administrative processes in place to prepare the annual report and accounts and the required supporting working papers.

Overall conclusion

An unqualified audit opinion on the annual report and accounts

The annual report and accounts for the year ended 31 March 2019 were approved by the Audit and Risk Committee on 20 August 2019 and authorised by the Accountable Officer on 26 August 2019.

We 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.

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

Good administrative processes were in place

13. We received the unaudited annual report and accounts and supporting papers of a high standard, in line with our agreed audit timetable. Our thanks go to staff at Disclosure Scotland for their assistance with our work.

14. The annual report and accounts will be submitted to the Scottish Government and Auditor General for Scotland by the 31 October 2019 deadline.

Our assessment of risks of material misstatement

15. The assessed risks of material misstatement described in Exhibit 2 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 audit procedures relating to these matters were designed 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. Our opinion on the annual report and accounts is not modified with respect to any of the risks described in Exhibit 2.

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

1. Management override

In any organisation, there exists a risk that management has 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 2018/19 External Audit Plan

16. We have not identified any indications of management override in the year. We have reviewed Disclosure Scotland's accounting records and obtained evidence to ensure that transactions outside the normal course of business were valid and accounted for correctly. We have also reviewed management estimates and the journal entries processed in the period and around the year end. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Under ISA (UK) 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 Disclosure Scotland could adopt accounting policies or recognise revenue transactions in such a way as to lead to a material misstatement in the reported financial position.

Excerpt from the 2018/19 External Audit Plan

17. At the planning stage of our audit cycle, we reported that for Scottish Government funding the risk of revenue recognition could be rebutted due to a lack of incentive and opportunity to manipulate transactions of this nature. We concluded, however, that the risk of fraud in revenue recognition is present in all non-government revenue streams.

18. We have gained reasonable assurance on the completeness and occurrence of non-government revenue streams and we are satisfied that income is fairly stated in the financial statements. To inform our conclusion we evaluated Disclosure Scotland's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

3. Risk of fraud in the recognition of expenditure

In 2016, the Public Audit Forum issued Practice Note 10 "*The Audit of Public Sector Financial Statements*" which applies to the audit of public sector financial statements for periods commencing after June 2016. This 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 2018/19 External Audit Plan

19. While we did not suspect incidences of material fraud and error, we evaluated each type of expenditure transaction and documented our conclusions. We have gained

reasonable assurance on the completeness and occurrence of expenditure and are satisfied that expenditure is fairly stated in the annual accounts. To inform our conclusion, we carried out testing to confirm that Disclosure Scotland's policy for recognising expenditure is appropriate and has been applied consistently throughout the year.

4. Classification of Transformation Project Expenditure

Disclosure Scotland's IT Transformation Project has continued to progress significantly in 2018/19. 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 2019. 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 2018/19 External Audit Plan

20. Disclosure Scotland capitalised £10.886 million of expenditure into intangible assets in 2018/19, all of which related to the Transformation Programme. In order to determine whether this was capitalised appropriately, we carried out sample testing of intangible assets under construction additions.

21. 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:

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

22. Currently areas of the system are under use, thus this led to a transfer from assets under construction to intangible assets where amortisation is charged. The transfer amounted to £8.241 million.

23. We will continue to monitor Disclosure Scotland's progress with the Transformation Programme, including capital expenditure. Further details of the Transformation Programme are reported within section six.

5. New finance system

During 2018/19 Disclosure Scotland is transferring to a new finance system for accounts receivable. It is anticipated that this financial system will be operational by 31 March 2019. There is a risk that transactions and balances recorded in the previous financial system are not transferred across to the new system correctly. Any error in the mitigation of data from the old system to the new system could result in a material misstatement to the financial statements.

Excerpt from the 2018/19 External Audit Plan

24. The finance system is now expected to be fully operational come the end of September 2019. Therefore, there is no risk of material misstatement to the 2018/19 financial statements. We will monitor Disclosure Scotland's progress and consider this risk as part of our 2019/20 audit.

Our application of materiality

25. The assessment of what is material is a matter of professional judgement and involves considering both the amount and the nature of the misstatement. This means that different materiality levels will be applied to different elements of the financial statements.

26. Our initial assessment of materiality for the annual accounts was £585,000. This equates to approximately 1.8% of Disclosure Scotland's 2018/19 budgeted expenditure (as per the Scottish Government's 2018/19 Spring Budget Revision). Expenditure is one of the principal considerations for users of the financial statements when assessing financial performance.

27. Our assessment of materiality is set with reference to a range of benchmarks. On receipt of the draft 2018/19 accounts, we reassessed our materiality figure based on actual 2018/19 expenditure. 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 for materiality remained unchanged from the planning threshold. Our revised materiality is £638,388 and it remained at these levels throughout our audit.

Performance materiality

28. Performance materiality is the amount set by the auditor for each financial statement area, to reduce to an appropriately low level the probability that collectively any uncorrected and undetected misstatements are less than materiality for the financial statements as a whole.

29. We set a performance (testing) materiality for each area of work which was based on a risk assessment for the area. We perform audit procedures on all transactions and balances that exceed our performance materiality. This means that we are performing a greater level of testing on the areas deemed to be of significant risk of material misstatement. Performance testing thresholds used are set out in the table below:

	Area risk assessment £		
	High	Medium	Low
Performance materiality	287,275	351,113	446,872

30. We agreed with the Audit and Risk Committee that we would report on all material corrected misstatements, uncorrected misstatements with a value in excess of £31,919, as well as other misstatements below that threshold which, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the annual accounts.

Audit differences

31. We are pleased to report that there were no material adjustments or unadjusted differences to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts.

Representations

32. We requested that a signed representation letter be presented to us at the date of signing the financial statements. This letter was signed by the Accountable Officer.

An overview of the scope of our audit

33. The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in February 2019. The plan explained that 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. 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.

34. At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

35. Our standard audit approach is based on performing a review of the key financial systems in place, substantive tests and detailed analytical procedures. 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, which is explained earlier in this report.

Other matters identified during our audit

36. During the course of our audit we noted the following:

Other information in the annual report and accounts

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

The performance report

38. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. It comprises an overview of the organisation and a detailed summary of how the entity measures performance.

39. We have concluded that the performance report has been prepared in accordance with directions from Scottish Ministers and is consistent with the financial statements.

The accountability report

40. The accountability report is required in order to meet key parliamentary accountability requirements and comprises three sections: a corporate governance report (including the governance statement), remuneration and staff report, and a parliamentary accountability report.

41. We have reviewed the information disclosed within the remuneration and staff report, including the fair pay disclosure. Our audit work identified that agency staff are excluded from the calculation of median remuneration (as disclosed within the fair pay disclosure). Government Financial Reporting Manual 2018/19 (paragraph 5.3.25) indicates the median remuneration should include temporary and agency staff.

42. Disclosure Scotland has excluded agency staff from the median remuneration as these costs vary significantly year to year therefore would give rise to distorted figures. As noted within the Financial Sustainability section of our report (paragraph 65), Disclosure Scotland uses temporary staff to manage the seasonal changes in demand. Disclosure Scotland provided narrative within the fair pay disclosure to explain this.

Action point 1

43. We have obtained adequate evidence that the information provided in the remuneration and staff report is in agreement with accounting records and has been prepared in line with ministerial guidance.

44. We have reviewed the annual governance statement and have found that it is consistent with the financial statements and has been prepared in accordance with Scottish Ministers' guidance.

45. Overall, the disclosures in the governance statement are consistent with this and internal audit's conclusion for 2018/19.

Internal audit

46. Disclosure Scotland's internal audit function is provided by the Scottish Government. We have taken cognisance of the work of internal audit in forming our opinion on the appropriateness of the disclosures in the annual governance statement.

Regularity

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

Looking forward

48. IFRS 16 Leases will be effective from 1 April 2020. IFRS 16 Leases will lead to a substantial change in accounting practice for lessees where the current distinction between operating and finance leases will be removed. Instead, it requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased property, and a lease liability representing the lessee's obligation to pay for that right.

49. There are new requirements for measurement of the lease liability where it will initially be measured at the present value of the lease payments payable over the lease term but may rise to reflect any reassessment or lease modifications or revised in-substance fixed lease payments.

50. The Disclosure (Scotland) Bill was introduced to the Parliament in June 2019. The Bill proposes to make amendments to the Protection of Vulnerable Groups (Scotland) Act 2007 and Part V of the Police Act 1997 to support the modernisation of the policy design of the disclosure system. This will result to changes to how Disclosure Scotland accounts for disclosure fee income. Disclosure Scotland has carried out significant work in this area and further details are included within section five of this report.

Qualitative aspects of accounting practices and financial reporting

51. During the course of our audit, we consider 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 annual accounts. The following observations have been made:

Qualitative aspect considered	Audit conclusion
The appropriateness of the accounting policies used.	We consider the accounting policies, which are disclosed in the financial statements, to be appropriate and in line with the Government Financial Reporting Manual.
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 amortisation.
The appropriateness of the going concern assumption.	We have reviewed the detailed financial forecasts for 2018/19. Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that Disclosure Scotland will continue to operate for at least 12 months from the signing date.
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 annual accounts.
The extent to which the annual accounts 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 or material inconsistencies with the financial statements.	The annual report contains no material misstatements or inconsistencies with the financial statements.
Any significant annual accounts disclosures to bring to your attention.	All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately. This includes Governance Statement disclosure as referred to previously.
Disagreement over any accounting treatment or annual accounts disclosure.	While disclosure and presentational adjustments were made during the audit process there was no material disagreement during the course of the audit over any accounting treatment or disclosure.
Difficulties encountered in the audit.	There were no significant difficulties encountered during the audit.

4. Wider scope

Following consideration of the size, nature and risks of Disclosure Scotland, the application of the full wider scope audit is judged by us not to be appropriate. Our annual audit work on the wider scope has therefore been restricted to:

- **Audit work to allow conclusions to be made on the appropriateness of the disclosures in the governance statement;**
- **Consideration of the financial sustainability of the organisation and the services that it delivers over the medium and longer term; and**
- **Review of progress of Disclosure Scotland's Transformation Project.**

Wider scope conclusions

Governance statement

We are satisfied that the Governance Statement complies with Scottish Ministers' guidance and that the content is consistent with the financial statements. We have reviewed the annual governance statement and have found that it is consistent with the financial statements and has been prepared in accordance with Scottish Ministers' guidance. Overall, the disclosures in the governance statement are consistent with this and internal audit's conclusion for 2018/19.

Financial sustainability

The 2019/20 Scottish Government budget announcement resulted in a 23% reduction in funding for Disclosure Scotland from the previous year which translates to a funding gap of £16.1 million. In 2018/19 budgetary pressures were resolved as part of Scottish Government's Spring Budget Review process for 2018/19. Disclosure Scotland understands that the budgetary pressures of £16.1million will be addressed similarly through the budget review process. There is a risk that financial pressures will be greater than budgeted due to the uncertainty and volume and speed of change resulting from the Transformation Programme in 2019/20.

The new Disclosure (Scotland) Bill is currently going through its Parliamentary passage. If passed, it will be implemented in stages over a period of time. Disclosure Scotland has undertaken significant work in terms of financial modelling to ensure Disclosure Scotland will be financially sustainable following the implementation of the Bill becoming a self-funding and sustainable agency.

Transformation Programme

Disclosure Scotland demonstrates clear commitment within the programme to minimising safeguarding risk. This commitment influences heavily in management's decision making. However, we have identified two main areas of weakness relating to the transformation programme. These relate to programme governance and financial governance.

We have concerns regarding the design and effectiveness of strategic programme governance arrangements. We have particular concern over the roles of the Disclosure Scotland Leadership Team (when acting in a programme capacity) and the Transformation Programme Board.

Whilst recognising that there has been some high-level financial reporting on the programme to the Advisory Board, the first financial reports submitted to a transformation governance group was in May 2019. This was to the ARC meeting following a specific request for information at its February 2019 meeting. We would have expected routine financial reports to be produced and submitted to programme governance groups from the outset of the programme.

The programme is significantly over the budget set out in the Full Business Case (FBC). It is predicted to be £19 million over budget. The optimism bias used in the FBC was at the lowest level available per the Treasury Green Book, which is not appropriate for a programme of this complexity. There was no detailed evidence available to explain the rationale for determining the optimism bias applied.

Our approach to the wider scope audit

52. Our approach to the wider scope audit (as set out in our 2018/19 External Audit Plan) builds upon our understanding of Disclosure Scotland which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.

53. During our audit we also considered the following risk areas as they relate to Disclosure Scotland:

- EU withdrawal
- Changing landscape of public financial management
- Dependency on key suppliers
- Openness and transparency.

54. Overall, we concluded that Disclosure Scotland has appropriate arrangements in place in respect of these areas as noted below:

Impact of EU withdrawal	Disclosure Scotland was well prepared for leaving on the original due date of 29 March 2019 and has been able to demonstrate their consideration of each area of the EU withdrawal checklist. This included a meeting held by the Leadership to assess the impact withdrawal would have on Disclosure Scotland. Contingency planning for a no deal Brexit has been undertaken, which seeks to manage and monitor the identified risks from a no deal Brexit. The three areas identified by Audit Scotland refer to workforce, funding and regulatory. Through discussions with senior Disclosure Scotland employees, and our understanding of Disclosure Scotland, none of the above areas represents a significant risk to ongoing operations.

Changing landscape of Financial Management	The Scottish Government's five-year outlook for the Scottish budget set out in the Medium Term Financial Strategy provides useful context for financial planning. The new budget process places greater emphasis on assessing outcomes and the impact of spending. Disclosure Scotland is working with the Scottish Government to bring into effect the new Disclosure (Scotland) Bill Legislation over a period of time, if the Bill completes its passage through the Parliament. The Director of Corporate Services has carried out significant work in terms of financial modelling to ensure Disclosure Scotland will be financially sustainable following the implementation of the Bill. More detail on this issue is contained in the Financial Sustainability section of this report (section five).

Dependency on key suppliers	Following the collapse of Carillion, it became apparent that public sector bodies face significant risks where key suppliers are experiencing difficult trading conditions. Disclosure Scotland, for the financial year 2018/19, engaged in significant expenditure with BT and BJSS: • £11.826 million to BT in respect of payments for the current IT platform; and • £10.866 million (capital expenditure) to BJSS the current supplier of developing and providing the Transformation Programme. Disclosure Scotland has spent significant sums of both capital and revenue expenditure in order to maintain current service levels whilst designing and implementing the Transformation Programme. Disclosure Scotland's contract with BT terminates September 2019, with no contract extension possible. If the Transformation Programme is not available for use in September 2019, Disclosure Scotland will need to implement a contingency plan to ensure they are able to continue to process disclosure checks. Our review of the Transformation Programme goes into more detail surrounding these risks (section six of this report). Disclosure Scotland incurred £0.864 million expenditure with Amazon Web Services (AWS) in 2018/19. AWS provides cloud based services which host Disclosure Scotland's IT systems.

Openness and transparency	Due to the nature of Disclosure Scotland and their operational activities, there is a realistic expectation as to how open and transparent they can be. For example, there has been no consideration of holding any public Board meetings as there could be legitimate safety concerns for employees. Disclosure Scotland has made some progress to becoming more transparent. In recent years they have published Advisory Board and ARC meeting minutes online. However, from our review, we would highlight the following area for improvement. Disclosure Scotland uses the mygov website platform. The website is established to provide information to customers on the different types of disclosure and customer access to Disclosure Scotland's service offering. In addition, it provides access to corporate information including their annual accounts, what Disclosure Scotland does and their role in relation to Scottish Government. However, from our review, we found it difficult to easily source Advisory Board and ARC meeting minutes. Direct from the website we could only easily identify the latest copy of the respective minutes. **Action point 2**

5. 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.

Significant audit risk

55. Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities

Financial sustainability

In January 2018 English and Welsh basic disclosures were transferred from Disclosure Scotland to the Disclosure Barring Service (DBS). This realignment of responsibility has resulted in a significant reduction in basic disclosure income, has direct consequences for the operational model of Disclosure Scotland and for the future financial sustainability of the organisation. Additional pressure in 2018/19 has resulted from Disclosure Scotland being unable to fully transition to the new transformation project IT system, which was expected to occur by the end of September 2018. As a result, the existing BT contract was extended until September 2019, resulting in a forecast 2018/19 over-spend in BT payments as at 31 December 2018 of £3.077 million. The impact of additional BT costs has been lessened as Disclosure Scotland negotiated an agreement which reduced the additional BT costs after 30 September 2018 by approximately £2.8 million.

Management's financial projection for 2018/19 predicted a budgetary pressure as at 31 December 2018 of £12.823 million, which is £3.164 million greater than the original forecast pressure at the start of the financial year. This has primarily arisen due to the IT system transition delay and BT contract extension. The forecast shortfall was communicated to the Scottish Government and addressed through the Spring Budget Revision.

Excerpt from the 2018/19 External Audit Plan

56. The Scottish Government Draft Budget 2019/20 was published on Wednesday 12 December 2018. An overall settlement of £11.400 million has been awarded to Disclosure Scotland for 2019/20, a decrease of in funding of 23% from the previous year (2017/18, £14.800 million):

- £6.700 million DEL resource revenue cash;
- £1.000 million DEL capital cash; and
- £3.700 million DEL resource non-cash.

57. As in previous years, a budget transfer of £1.000 million of Resource DEL (cash) is also planned from the Scottish Government Health and Social Care Directorate to Disclosure Scotland as a contribution to the Protection of Vulnerable Groups (PVG) Scheme.

58. Revised estimates for 2019/20 have been developed in discussion with Scottish Government which has identified a funding shortfall of £16.100 million (£6.600 million revenue and £9.500 million capital).

2019/20 Budget against forecast

	Budget £million	Forecast £million	Variance £ million
Operating income	(16.700)	(16.700)	0.000
Operating expenditure	24.400	31.000	(6.600)
Depreciation/ amortisation (non-cash)	3.700	3.700	0.000
Capital investment	1.000	10.500	(9.500)
Total	**12.400**	**28.500**	**(16.100)**

59. In 2018/19 budgetary pressures were resolved as part of Scottish Government's Spring Budget Review process for 2018/19. Disclosure Scotland understands that the budgetary pressures of £16.100 million will be addressed similarly through the budget review process.

60. There is a risk that the current funding shortfall will increase if the Transformation Programme's Minimum Viable Service (MVS) is not in a position to become operational by the September 2019 deadline to enable Disclosure Scotland to safely transition from the existing BT platform. In the event that the MVS is not delivered by September 2019, Disclosure Scotland has recognised that contingency plans will be required to be implemented to enable safeguarding services to continue to be provided in a timely way. The contingency measures developed by Disclosure Scotland will involve implementing contingency plans which include further manual processing arrangements, which will further increase operating costs. Further details on the Transformation Programme are included within section six of this report.

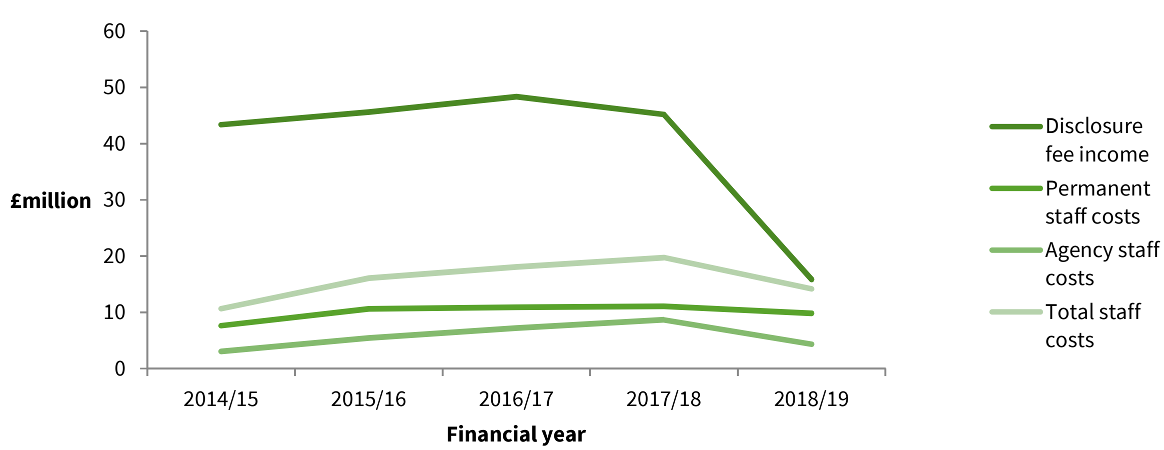
61. If passed by Parliament the new Disclosure (Scotland) Bill will be phased in over a period of time. Disclosure Scotland has undertaken significant work in terms of financial modelling to ensure Disclosure Scotland will remain financially sustainable following the implementation of the Bill. As outlined below we have reviewed the Board's arrangements for managing its financial position in this context.

Short-term financial planning

62. In 2018/19, for the first time, Disclosure Scotland did not generate 100% of its income from disclosure fees. In previous years Disclosure Scotland has been able to generate income in excess of costs resulting in the organisation being a net contributor to the Scottish Consolidated Fund. In January 2018 responsibility for Welsh and English basic disclosures transferred to DBS. Disclosure Scotland's disclosure fee income has reduced by £29.354 million (65%) to £15.839 million in 2018/19 as a result (exhibit 3).

63. Until 2017/18, staff costs and disclosure fee income have 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 to manage the anticipated business transformation following the DBS transition (exhibit 3).

Exhibit 3: Disclosure fee income and staff costs



Source: Disclosure Scotland's Annual report and accounts 2014/15, 2015/16, 2016/17, 2017/18 and 2018/19

64. It is clear from the graph above that the number of applications processed, income received and staff costs have historically flexed to coincide with each other following a predictable pattern. We can see for 2018/19 however, that the decrease in disclosure fee income has been significant (65% reduction from

the previous year) whilst the drop in total staff costs has not decreased at the same rate (28% reduction from the previous year).

65. The use of temporary agency staff aligns with Disclosure Scotland's business model to proactively manage seasonal trends in demand. Disclosure Scotland incurred agency staff costs of £4.330 million in 2018/19, representing 31% of 2018/19 staff costs (£14.170 million). However, a number of agency staff are employed in relation to the Transformation Programme and such the skills are in high demand. This is likely to continue to be a costly exercise until the BT service concludes.

66. Employer pension contributions are likely to increase significantly in 2019/20. This is a direct result of changes announced by the UK Government as part of the scheme of valuations for public sector pensions and the government has committed to meeting some of these costs.

67. The lift of the public sector pay cap has continued to result in additional cost pressures. Disclosure Scotland has incorporated Scottish Government core pay policy 2019/20 into the 2019/20 budget:

- 3% uplift for current salary below £36,500;
- 2% uplift for £36,500 to £80,000; and
- and
- £1,600 above £80,000.

68. Based on current funding levels from Scottish Government and forecast levels of disclosure fee income, Disclosure Scotland is forecasting a significant budget overspend in 2019/20. Disclosure Scotland is reporting a budgetary pressure of £16.100 million for 2019/20. As noted in paragraph 59, Disclosure Scotland understands Scottish Government will provide cover for the financial shortfall for 2019/20.

69. We 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 2019/20 audit.

Longer-term financial planning

70. In our 2017/18 Annual Audit report we identified Disclosure Scotland undertook long term financial planning. During 2018/19 Disclosure Scotland has developed financial models to demonstrate their expected financial position following the introduction of the Disclosure (Scotland) Bill Legislation.

71. The model accounts for key assumptions including volumes of applications, attrition rates, price and meeting future efficiencies. We have reviewed the assumptions that are projected within the model and conclude the reasonableness and prudent approach of the assumptions in producing reliable financial forecasts.

72. A key assumption under the model is the attrition rate of members who will initially leave the scheme. Disclosure Scotland hired an independent body to review this based upon the changes to the scheme, the type of service Disclosure Scotland operates and the impact such changes would have on their customers.

73. The modelling takes into account the different pricing options from the scheme. Either pricing strategy, under the current assumptions, puts Disclosure Scotland into a net contribution position to the Scottish Government over a five year period.

74. The model also extends another five years, taking financial projections until the year 2032/33. Similar assumptions have been assumed in the long term modelling.

Looking forward

75. As noted in paragraph 55, processing of English and Welsh Basic disclosures transferred to DBS during 2017/18. This has a significant impact on the application 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 through the reduction of agency staffing levels to meet the reduced activity levels.

76. Disclosure Scotland has previously been a net funder to the Consolidated Fund. 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 that was identified in 2018/19 and moving forward into 2019/20.

77. 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. Disclosure Scotland receives funding from the Health Portfolio to contribute to the cost of "Free Checks" for Health Related volunteers and a contribution towards their continuous monitoring. A

review of such costs has been included within the financial model mentioned above (paragraph 71). The financial model takes into account the financial position of Disclosure Scotland dependent upon the annual charge of the PVG Scheme.

78. Disclosure Scotland has extended its contract with BT following a delay of the Transformation Programme. In our 2017/18 Annual Audit report, we reported Disclosure Scotland had taken the decision to trigger within their BT contract an extension to September 2018. It was then reported the risk of extending further than this was remote.

79. Following this, Disclosure Scotland experienced further delays to the Transformation Programme, resulting in an extension of the BT contract through to September 2019. These delays have resulted in higher than expected net expenditure in the year was observed.

80. However in September 2019 the BT contract will end and will not be renewed. This puts significant pressure on the Transformation Programme to be complete by this date (for further details on the Transformation Programme are included in section six of this report).

6. Transformation Programme

Transformation Programme

81. Our audit plan identified a significant risk in relation to the transformation programme under our wider scope responsibilities

Transformation Project Arrangements

Disclosure Scotland is striving to transform the organisation and replace their outdated IT systems. Disclosure Scotland demonstrates continued commitment to continuous improvement through the transformation Project. Disclosure Scotland has made progress against this transformation project in 2018/19.

In September 2018 as a result of security and functionality concerns, Disclosure Scotland took the decision not to fully transition to the new transformation project IT system as originally planned. As a result, Ministerial approval was obtained to extend the existing BT contract until September 2019, incurring significant additional costs.

The delay has resulted in Ministerial intervention and increased involvement by the Scottish Government. Although not formally agreed, it is expected that accountability, monitoring and reporting arrangements in relation to the transformation project will be impacted as a result. Discussions in relation to this matter are currently ongoing between Disclosure Scotland and the Scottish Government.

Excerpt from the 2018/19 External Audit Plan

82. Disclosure Scotland's Transformation Programme is an ambitious and challenging one which aims to provide a platform through which the organisation can adapt more readily to new requirements. At the time of our review, there was significant work being undertaken to implement functionality for the PVG scheme as well as to address data migration requirements that are necessary for allowing the ongoing monitoring of PVG scheme members.

83. The programme is highly innovative in nature. An example of this is that the programme has resulted in police and conviction data being hosted securely in the Cloud, the first public body in the UK to achieve this. This required significant effort to meet accreditation requirements.

84. A consistent theme throughout our review was managing the safeguarding risk. Management demonstrated a commitment to ensuring that any solution that is released minimises the risk to children and vulnerable adults and this is a clear criteria for managing the exit from the BT contract.

85. At present, the Protecting and Safeguarding Scotland (PASS) system is being used for processing Basics, Standard and Enhanced disclosure applications. In March 2019, 99% of Basics applications were being processed through PASS along with 82% of Standard applications. This equated to 45% of overall applications.

86. Our specialist Business Consultancy Team undertook a review of the considered the adequacy of governance arrangements for the programme with particular focus on financial reporting as well as risk and issue management. The review has also considered the effectiveness of alignment of programme and corporate governance. Our review has identified two main areas of weakness relating to the transformation programme. These relate to programme governance and financial governance.

87. We found that governance arrangements were not effective for a programme of the scale and complexity of the transformation programme. We identified that there as a lack of cohesion in the strategic governance groups and it was not possible to establish the effectiveness of each group's role, purpose and contribution and how they related to each other. In particular, the roles of the Leadership Team (when acting in a programme capacity) and the Transformation Programme Board (TPB) were not sufficiently clear.

88. We were also concerned by the lack of formal financial reporting for the programme, especially given the significant level of overspend at the time of our audit. Whilst there has been high level financial information provided to the Disclosure Scotland Board, the financial reporting to governance groups was not what we would have expected for a programme of this scale. The first financial information produced and provided to governance groups of any substantial detail was in May 2019 following a request from the Chair of the Audit and Risk Committee at the February 2019 meeting.

89. At the time of our review, the programme is predicted to be approximately £19m over the original budget set out in the Full Business Case (FBC). In reviewing the FBC we identified that the optimism bias calculation was set at the lowest possible level for a programme of this nature. This may be a contributory factor in the forecast overspend against the FBC.

90. A number of issues identified during the course of our review are symptomatic of an organisation that would have benefited from having additional capacity at senior management levels to assist in the delivery of the programme as well as business as usual activity. We noted that members of the Leadership Team were investing substantial amounts of time in the programme whilst still maintaining business as usual activity and we acknowledge their commitment. However, this has meant that senior management may not been able to provide the level of independence and support the level of governance we would expect of a programme of this nature.

91. Disclosure Scotland management should ensure that the key messages in this report are addressed, wherever possible, for the remainder of the programme as well as future projects and programmes undertaken.

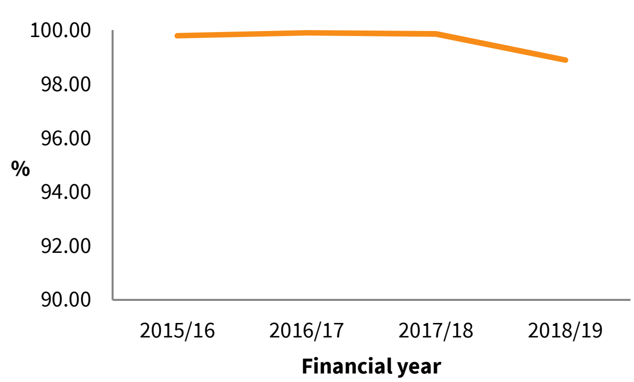
Disclosure Scotland 2018/19 overview

92. During 2018/19 Disclosure Scotland continues to experience fundamental changes. Disclosure Scotland worked with the DBS to support their development of new technology to take over the management of English and Welsh basis disclosures from February 2019. Work also continued on Disclosure Scotland's Transformation Programme, details of in year milestones are included with 'Transformation Programme overview' below. Disclosure Scotland and BJS were also nominated for, and won, an award at the annual ScotlandIS digital technology awards for Innovation within the Public Sector.

93. Despite of these changes, Disclosure Scotland has continued to deliver against its Service Level Agreement (SLA). The SLA is to process 90% of disclosure certificates within 14 days (as long as the application was completed correctly and there are no further enquiries). This is measured from the day it receives the application to the day the certificate is sent. 98.9% of applications in 2018/19 were process with 14 days.

94. However, Disclosure Scotland's performance against this SLA has slightly declined in the past two financial years, as shown in exhibit 4.

Exhibit 4: SLA % applications processed within 14 day target



Source: Disclosure Scotland's Annual report and accounts 2015/16, 2016/17, 2017/18 and 2018/19

Transformation Programme overview

95. Disclosure Scotland began the current phase of an ambitious Digital Transformation Programme in 2016/17, to not only migrate from an old, costly and complex system managed by BT, but also to redesign their services to customers to improve performance and reduce costs. The vision for the programme was:

"When the Transformation Programme has completed, Disclosure Scotland will be a customer centric organisation with an embedded culture of Continuous Improvement. We will deliver more effective, responsive and efficient services to our customers and stakeholders through interactive digital channels, supported by an agile technology platform, lean business processes and a flexible organisational structure."

96. At that point the contract with BT was due to end 31 March 2018 and it was decided to work towards this date and make a decision at the last responsible moment on whether exiting BT on this date was viable.

97. A key feature of Disclosure Scotland's transformation programme is to implement a new business application, PASS, to replace the existing system provided by BT.

98. The new system is to be used for processing Basic, Standard, Enhanced and PVG disclosures.

99. The development of the system has followed an Agile process. A timeline of key milestones is included within Appendix 3 to this report. In February 2017 BJSS bid for, and were awarded, a contract for the beta stage. In December 2017 the contract for the next stage of the programme was awarded to BJSS (who were the only bidder). The team delivering the new system is a mix of DS staff, BJSS staff and contractors / interim managers.

100. Due to the significant complexity of building the new cloud-based platform (the first time anywhere in the UK that Police data would be stored in the cloud) and the complex security requirements, the programme plan has changed significantly both in terms of functional scope and timescales, as follows:

November 2017 It was clear that the work to create a new secure platform would continue well past the original March 2018 end date and an extension was agreed to the end of March 2019 with a break clause allowing notice to quit at the end of September 2018 to be given before the end of June.

March 2018 The break point was exercised with the aim of being off the BT platform by the end of September 2018.

August 2018 The plan was revised due to escalating risks regarding the solution build, and it was agreed to continue with the BT contract to March 2019 while BT carried out due diligence on the possibility of extending beyond March 2019.

November 2018 Further work evidenced the need to extend the BT contract, which BT agreed to extend to September 2019.

101. At the time of the November 2018 extension, BT was clear that no further extension could be considered. As a result, Disclosure Scotland must be off the BT platform by the end of September 2019 even if PASS does not have the functionality to allow it to process all of the required Disclosure Scotland products.

102. The programme has proven to be more complex than was originally understood, both technically and functionally, which is not unusual for such a large technology-enabled programme, replacing an old, complex and bespoke solution with a completely new platform.

103. Following the Agile model, new functionality is being added to PASS in stages. PASS now deals with almost half of Disclosure Scotland's business and all of the Basics, Standards and Enhanced disclosure applications now go through PASS. Functionality for PVG 'join' is the next increment followed by PVG existing.

104. It has always been understood that the functionality to allow Disclosure Scotland to get off BT would be in the form of a MVS requiring Disclosure Scotland to implement a number of manual workarounds for a time. Once the MVS is operational and Disclosure Scotland has exited BT, the next stage of the transformation will begin.

Programme governance

105. A cornerstone of any programme is to establish and embed a robust governance framework with clearly defined roles, responsibilities and reporting arrangements.

106. The programme represents its governance structure in a diagram which sets out the various tactical and strategic governance groups along with the frequency with which each group meets. The tactical groups are those which are involved in the day-to-day elements of programme delivery. For example, these include sprint planning and sprint review meetings. We confirmed through our review that these tactical group meetings were routinely taking place and that they serve to provide the forum through which detailed planning takes place.

107. There were four groups identified with 'strategic' programme governance roles. These were:

Disclosure Scotland Leadership Team*	**Transformation Programme Board (TPB)**
Audit and Risk Committee (ARC)	**Disclosure Scotland's Advisory Board**

* Disclosure Scotland Leadership Team who meet separately to their business-as-usual role.

108. A decision was taken by the Disclosure Scotland Advisory Board to delegate responsibility for oversight of the transformation programme to the new TPB. A formal terms of reference was produced which set out membership of the TPB as well as its roles and responsibilities. The terms of reference for the TPB stated that:

"the function of the TPB, as approved through delegated authority by the Disclosure Scotland Board, is to take responsibility for the day to day management of the Programme. The Programme Board is responsible for approving budgeted expenditure, defining and realising benefits and managing risks, quality and timelines."

Strategic governance groups

109. Our audit work identified that programme governance arrangements for the transformation programme lacked sufficient clarity to allow us to form an assessment on the effectiveness of individual governance groups in discharging their duties. We identified that there is a lack of coherence in the design and structure in the current governance arrangements to the extent that it is unclear what role each of the strategic governance groups performs in practice and what the reporting links are between them. For example, the TPB was supposed to take responsibility for day to day management of the programme. However, this has never been the case. We acknowledge that, at the conclusion of our review, management was undertaking work to more clearly establish the role and function of each strategic governance group.

Disclosure Scotland Leadership Team

110. The Disclosure Scotland Leadership Team meets on a weekly basis to discuss business as usual matters relating to the running of the organisation. Management explained that initially programme issues were discussed during weekly meetings of the Leadership Team.

111. Since October 2018, the Leadership Team has had an additional meeting every fortnight with key members of the Programme. This was a separate meeting to the main Leadership Team meeting. These meetings were not minuted and there were no formal meeting agendas and papers produced. We were informed that these meetings were used by the Leadership Team to monitor progress and support escalation of issues. Management commented that these meetings were focused on the Agile principles of "don't slow down delivery" and "decisions when they are needed at the right level". However, without an agreed terms of reference and meeting agendas etc. we are unable to validate what was being presented to these meetings and what decisions were being made.

TPB

112. The TPB was originally set up under an earlier stage of the programme. Its terms of reference were last reviewed in September 2016. Membership of the TPB included the Chief Executive (who chaired the group as the Senior Responsible Owner of the Programme) as well as the remainder of the Leadership Team, the Product Owner and two Non-Executive Directors one of whom, according to management, was appointed for her skills and experience in agile digital delivery. Key representatives from Scottish Government – IT and Procurement - were also members of the Board but from review of minutes of the TPB meetings, they have rarely attended. Police Scotland, as a key partner, also has a representative on the Board. They were invited to join in June 2017 and have attended a number of meetings.

Key issues:

113. Our audit work identified a number of weaknesses regarding the TPB in discharging its remit. Examples of these are as follows:

- The TPB held its initial meeting in December 2017. We found that, from December 2017, the TPB then only met on three occasions in the following 13-month period with meetings held only in May, June and September 2018. Given the gravity of events during 2018 and the strategic importance of the TPB in oversight of the programme, we sought an explanation as to why the group met so infrequently during 2018. It was explained that the TPB was only convened at critical decision points and these three meetings were scheduled to correspond with when decisions were needed.
- The TPB has not fulfilled its remit regarding oversight, authorisation and decision

making. The feedback received is that the group saw itself as a challenge and scrutiny role. From our review of minutes of meetings, papers submitted to the TPB and discussions with members of the group, we were unable to ascertain what decisions the TPB made and the decisions it was responsible for making.

- There was no financial information provided to the TPB nor was there any evidence of authorisation of expenditure by the TPB. We were told that this was because the meetings are attended by representatives of the contractor and that it was felt inappropriate to discuss financial information or make financial decisions in their presence. We would have expected the TPB to have moved into a 'commercial in confidence' or private session to exclude the supplier from the meeting when financial information was being discussed.
- We also noted that the relationship between the Disclosure Scotland Leadership Team 'programme' meetings and the TPB was not clear. We did not see any formal reports from the Leadership Team meetings, minutes of meetings or escalation of issues to the TPB.

114. In early 2019, a decision was taken to increase the frequency of TPB meetings to monthly. We observed that the information provided to the TPB was of a better quality especially regarding the velocity of progress - a measure of the actual progress made by delivery teams within each sprints cycle against estimated deliverables.

115. While this displays positive steps have been taken since January 2019 to improve the programme governance and reporting, we have concluded from our meetings and review of documentation that governance and reporting of the programme to the TPB prior to January 2019 had been insufficient and information provided. reduced the ability of senior stakeholders to scrutinise and challenge progress against deliverables as well as the ability of key suppliers to deliver within expected timeframes.

ARC

116. The ARC has had an increased role in oversight of the programme since late 2018. Prior to this the Committee did not receive any formal information other than that was contained in standard committee business reports e.g. finance, internal audit reports, updates from the Chief Executive.

Disclosure Scotland's Advisory Board

117. The Advisory Board delegated much of its strategic oversight role to the TPB although it has received reports on a regular basis which provide a high level overview of project progress and agreed to adopt the agile approach as well as endorsing the revised approach to Programme delivery adopted from November 2018.

Agile governance

118. As mentioned in paragraph 103 of this report, this programme was managed using an Agile methodology. The programme took this decision with approval of the Advisory Board following a review of the risk attached to undertaking the programme using a traditional procurement and programme approach. That review was carried out by an independent third party (PA Consulting) which recommended a move to an Agile approach. As such, this was the first programme or project of this nature that was delivered using Agile by Disclosure Scotland. We noted from our audit work that not all members of the Leadership Team and Board members had Agile experience and were not provided with any formal training on the Agile methodology.

119. We also noted that the governance established did not fully consider the governance needs of the organisation in an Agile environment. For example, terms of reference, which set out roles and responsibilities as well as delegated authority, were not produced for all strategic governance groups, governance over requirements prioritisation was not clear, nor was there regular formal reporting of progress on sprints to the TPB. These are key aspects that we would expect to see from an effective Agile governance structure. This creates the risk that members of governance groups who are not involved in the day-to-day elements of the programme will not have been made aware of progress being made and had the opportunity to provide leadership and input on decision making.

120. From our discussions with Non-Executive Directors and members of the Leadership Team, we believe that the organisation would have benefitted from providing training on the Agile methodology and how this would impact on governance and decision making.

Organisational capacity

121. It was also evident during our review that, with the exception of the ARC, the entire Disclosure Scotland Leadership Team were members of the remaining three strategic governance groups which had a role in the Transformation Programme. Whilst we recognise that this underscores the commitment of senior management to the programme, there is a risk that the day to day involvement of the

Leadership Team in the programme has undermined the level of independence, scrutiny and challenge whenever they act in a programme governance capacity.

122. A number of issues raised in this report are somewhat symptomatic of an organisation which would have benefitted from additional management capacity to manage the transformation in addition to the day to day challenges of running the organisation. This programme is a substantial undertaking and we were struck during the course of our review on how much management time is being invested into and absorbed by the programme.

Key issues:

123. The strategic programme governance structure is not fit for purpose and does not align to Agile governance requirements. It does not have a coherent design and structure and there is limited understanding of the role and purpose of each governance group. As a result, it is unclear how decisions are being made including approval of additional budget and prioritisation of activity.

124. The TPB has not functioned effectively as a programme board since its inception. During a critical time for the programme, it met three times in 13 months. This has meant that it has not exercised its role in decision making and monitoring and approving expenditure.

125. The Disclosure Scotland Leadership Team is members of three of the four strategic programme governance groups. There is a risk that this may have impacted on their ability to provide independent scrutiny and challenge when acting in a governance capacity.

Financial governance

Financial position

126. An Outline Business Case (OBC) produced in June 2015 for replacement of the BT system identified that the cost to do so would be in the region of £77 million. This business case was rejected by Scottish Ministers on affordability grounds and a refined version was produced in October 2015 with an estimated cost of £34 million.

127. In 2016 it was agreed to follow an Agile methodology for the development of the PASS system. This approach was underpinned by an independent review which took place in 2016 to scope the risks and opportunities of both a waterfall and an agile option. This review concluded that a waterfall approach was not a credible way to deliver such a complex and innovative programme. This was accepted by the Advisory Board.

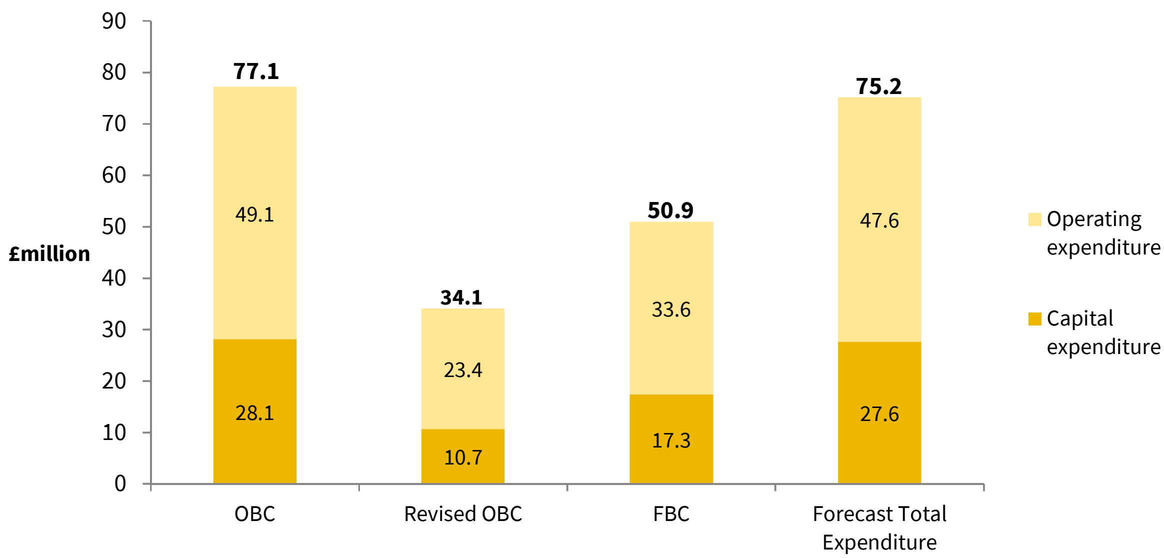
128. As a result of the above, in advance of producing a FBC, a decision was taken to undertake discovery exercises (Alpha and Beta) to provide a better understanding on the complexity of the system development needed. This is a prudent approach to take where there is uncertainty in the scope of work. The FBC determined estimated costs including optimism bias of £45.8 million. A further £10.5 million cost (including optimism bias) was associated with extending the BT contract to 30 September 2018. This gave a total FBC cost of £56.3 million.

129. At the time of our audit work, the forecast costs were £75.2 million, representing an £18.9 million increase in cost over and above the FBC. We noted that this does not include an estimate of costs associated with contingency plans should the MVS not meet requirements nor does it include the costs of achieving the wider digital transformation objectives. We also noted that, despite the escalation in costs in 2018, work has not yet been undertaken to revisit the FBC.

130. There have been a number of events and circumstances during the course of the development and implementation of the transformation programme which have resulted in this significant increase in costs. A substantial proportion of these can be attributed to three main areas:

Cost	Area
£10.3 million	A forecast of additional capital costs (system development)
£5.4 million	BT additional costs - net estimated additional costs for extending the service with BT to 30 September 2019
£3.3 million	Manual workarounds (to cater for processes that will not be supported by system functionality)

Exhibit 5: Transformation Programme Expenditure



Source: Disclosure Scotland - Transformation Programme Finance Report, April 2019

131. The impact of additional BT costs has been lessened as Disclosure Scotland negotiated an agreement which reduced the additional BT costs after 30 September 2018 by approximately £2.8 million.

132. As per the breakdown of additional costs in paragraph 130, the additional system development costs account for over 50% of forecast additional costs. These costs have been broadly attributed to "unexpected complexity" of the system.

133. However, there is no documentation which breaks down these additional costs to specific functionality, events nor did we see any evidence of approval for additional budget being sought from a governance group.

Financial reporting to governance groups

134. A significant concern identified during the course of our audit work was the absence of financial reporting to governance groups during the transformation programme to date.

135. It was identified that, other than the normal finance papers submitted to the Advisory Board, there has not been any formal financial reporting through the transformation governance framework. Given that the programme is significantly over the original budget set out in the FBC, the lack of formal governance over the financial position of the programme is surprising and gives rise to concerns over the financial management of the programme.

136. The first paper presenting the overall financial position of the programme to any of the governance groups, was created in April 2019 and submitted to the May 2019 ARC. This was in response to a request made by the Chair of the Committee at the February 2019 meeting.

137. We were provided with a copy of the paper on the financial position of the programme in advance of the ARC meeting paper and noted that it did not provide sufficient information on cost drivers or the chronology of increases in programme costs. At the May 2019 ARC, the Chair of the Committee requested further information to be provided to allow members to understand the chronology of events that have impacted upon the overall cost of the project.

138. We recognised that there was high level reporting of the financial position of the programme to the Advisory Board. Updates also include dialogue held with the Scottish Government Sponsor department on additional funding requirements. However, the financial reporting to governance groups was not what we would have expected for a programme of this scale. The reporting to the Advisory Board does not provide sufficient information to allow a clear understanding of the overall financial position of the programme. We would have expected more detailed, programme-level financial reports to be produced and submitted to governance groups routinely throughout the programme that allowed

readers to understand the current and forecast outturns.

139. In early 2019, it was identified that the financial cap for the BJSS contract would be reached in May 2019. The Programme Manager initially made contact with Disclosure Scotland Procurement with the issue escalated to the Disclosure Scotland Head of Procurement on 23 February 2019. Management recognised that an effective resolution of this was pivotal to the delivery of the programme. For example, one option was a full competitive procurement which would have lasted approximately eight weeks at a critical juncture of the programme. Discussions were held with MacRoberts, Disclosure Scotland's legal advisers, as well as Scottish Government procurement advisers during early March. We noted from our review that the intervention of the Director of Corporate Services on 21 March 2019 was a critical moment in determining potential solutions to this problem. The Director of Corporate Services set out the current position and challenges to programme delivery to MacRoberts and this allowed them to provide advice on available options.

140. Following this legal advice, it was agreed to opt for a Non-Competitive Action to extend the financial cap for BJSS, which would take their role in the contract until the end of 2019. An options paper was circulated to the ARC in late April for their approval of the option to proceed with a Non-Competitive Action.

Business case

141. As part of our audit work, we have reviewed the financial case within the FBC that was approved in November 2017.

142. The nature of the transformation programme means that it would be considered as an "Equipment & development project" per the HM Treasure Green Book. These are defined as:

"Projects that are concerned with the provision of equipment and/or development of software and systems (i.e. manufactured equipment, Information and Communication Technology (ICT) development projects) or leading edge projects."

143. A key feature of any business case is to include optimism bias against estimated costs. There are agreed ranges within which optimism bias should be applied to costs. These are set out in the Green Book in exhibit 6.

144. Guidance within the Green Book states that in applying optimism bias, the percentage applied should start at the "upper" level and this can be reduced by determining the extent to which contributory factors are being managed and mitigated.

145. In analysing the FBC, we identified that the effect of optimism bias on the FBC was a 3.9% increase in budget excluding the BT costs to 30 September 2018. When including BT costs it is 10.2%. When reviewing the FBC financial model, we identified that there are numerous costs where optimism bias has only been included for single year, this largely being the expected year of implementation. This indicates that there has not been any consideration of the 'works duration' optimism bias in calculating optimism bias.

146. The calculation of optimism bias is set out in exhibit 7. The percentage used in the above is the percentage to be applied to those costs excluding optimism bias i.e. 120% = 20% optimism bias.

147. There was no detailed evidence available to explain the rationale for determining the optimism bias applied.

148. It was stated that the optimism bias used for the FBC was less than that applied in the OBC.

149. Whilst we recognise that the organisation would have benefited from the work done on the discovery exercises, the low level of optimism bias - which is almost at the lowest level possible for a programme of this nature - is difficult to justify given that there were known time pressures, the functionality that was required was iterating and it was inherently higher risk given the scale, and complexity of the programme and the level of unknowns.

Exhibit 6: Green Book's optimism bias recommended ranges

Project type	Optimism bias (%) [2]			
	Works duration		Capital expenditure	
	Upper	Lower	Upper	Lower
Standard buildings	4	1	24	2
Non-standard buildings	39	2	51	4
Standard civil engineering	20	1	44	3
Non-standard civil engineering	25	3	66	6
Equipment/development	54	10	200	100
Outsourcing	N/A	N/A	41*	0*

*The optimism bias for outsourcing projects is measured for operating expenditure

Exhibit 7: Calculation of optimism bias

Description	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Sunk capital							
Sunk revenue							
Digital services capital		**100%**	**110%**	**100%**			
Digital services revenue		**100%**	**110%**	**100%**	**100%**	**100%**	**100%**
Agent services capital		**100%**	**130%**				
Agent services revenue		**100%**	**130%**	**100%**	**100%**	**100%**	**100%**
Enabling service capital		**100%**	**120%**				
Enabling service revenue		**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Cloud services capital		**100%**	**110%**				
Cloud services revenue		**100%**	**110%**	**110%**	**110%**	**110%**	**110%**
Service management capital		**100%**					
Service management revenue		**100%**	**120%**	**120%**	**120%**	**120%**	**120%**
Supporting services capital		**100%**	**120%**				

Description	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Supporting services revenue		100%	100%	100%	100%	100%	100%
BT exit capital							
BT exit revenue		100%	100%				
Extension with BT			150%				

Key issues

150. There are a number of weaknesses in relation to financial governance, the most significant being the absence of detailed financial reporting to programme governance groups during the course of the programme to date. This reduces the ability of governance groups to monitor and challenge expenditure as well as being able to make informed decisions on whether to proceed with the programme.

151. The current forecast expenditure does not include costs relating to contingency arrangements or the full costs of achieving the original digital transformation ambition. This does not allow stakeholders to identify the lifecycle cost of the programme or to make assessments on value for money generated from the programme.

152. The programme team was unable to provide any supporting evidence to explain the predicted additional £10.3 million system development costs that are expected to be incurred by the programme.

153. The level of optimism bias applied in the approved FBC is at the lowest level possible when applying the HM Treasury Green Book guidance for a programme of this nature. This is surprising given the inherent level of uncertainty associated with this programme on system requirements. We also noted that there was no ‘works duration’ optimism bias applied to projected costs. The application of a low level of optimism bias has the effect of under-estimating the projected funding requirement for the programme.

Risk and issue management

154. The nature and complexity of the Transformation Programme means that it is essential that there is a strong focus on the identification, recording and management of risks and issues.

155. We identified that a programme risk register was being maintained. In addition to recording risks, this was also being used as a repository for programme issues, dependencies and assumptions.

156. A programme risk management group is in place and this meets every two weeks. This group is attended by the Product Owner, Programme Manager as well as a number of other individuals involved in the delivery of programme work. Updates on risks, issues, assumptions and dependencies are recorded within the register by date they were last reviewed. For each risk recorded within the risk log, there are also details of the cause of the risk, the consequence of it and proximity. Risks are also scored against previous and current residual risk basis and are assigned against an “impact area” for example technical, governance and delivery.

157. Risks have also been reported to the TPB throughout the programme although from reviewing the presentation packs, we noted that there was no consistency in how risks were being reported. For example, on some occasions there was reporting of the key risks from the risk register whilst in other occasions it was a summary of risks by impact area or bullet points summarising the main risks facing the project.

158. We also noted that there from November 2018, there has been increased risk monitoring by the ARC. In November 2018, there was a deep dive on the programme and associated risks (on the back of the revised approach) and in February 2019, there was a review of wider programme risks especially around the failure to exit the BT contract.

Key issues

159. We identified that risk management processes for the programme were largely adequate. We did identify that there was scope to improve the consistency and quality of information on risks to the Transformation Programme Board.

Minimum Viable Service

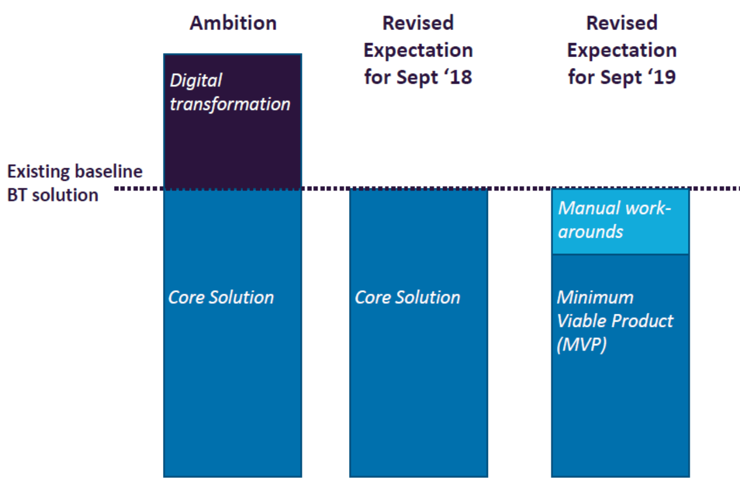
160. The implementation of a Minimum Viable Service (MVS) has always been the target of the transformation programme. This is recognised as the delivery of a system which is operationally safe and provides for the ability to exit the BT contract.

161. Over time, and with additional complexity identified with regards to the system requirements, the definition of that MVS has changed. In response to the decision in August 2018 to extend the BT contract initially to March 2019 and subsequently to September 2019, a series of options were identified to take forward the delivery of PASS.

162. This resulted in a revised approach to development of the system being agreed in late 2018. One of these was a change in development philosophy to work on individual products at a time by building sequentially on the functionality delivered through the implementation of Basics (Enhanced then PVG).

163. A revised Transformation Programme Plan was created which set out the activities that were necessary to implement the MVS. One of the changes over time has been to effectively reduce the scope of the MVS for 30 September 2019 with those areas not covered by PASS functionality covered for a period of time through manual workarounds. This is illustrated in exhibit 8, diagram from the Capgemini's Digital Transformation Programme High Level Review report (November 2018).

Exhibit 8: MVS



Source: Capgemini - Digital Transformation Programme High Level Review, November 2018

164. The costs of these manual workarounds are included in the financial forecast provided to the ARC in May 2019. It is intended that work will be concentrated on delivering the MVS and thereafter work will commence to deliver the functionality needed to allow manual workarounds to be withdrawn.

165. It was evident from our review of the revised Transformation Programme Plan that there is limited capacity within the plan to accommodate delays in development and testing of PASS functionality. The detailed plans maintained by the programme teams identify the sprints to be delivered, the timing of these as well as well the cutover period from development into testing and operational readiness.

166. Our audit work identified that there are a number of significant Issues and dependencies which have the potential to impact the ability of the Programme Team to achieve all required deliverables within the planned cutover dates set-out within the programme plan. One notable issue identified by the Product Owner during our review related to the lack of available environments and resource to undertake scenario testing of the PVG scheme functionality. It was stated that the revised programme plan did not include the requirement to undertake this testing and there is now potential for this to negatively impact on the Programme Team's

ability to deliver planned functionality within the dates set-out within the revised plan.

167. It was noted that, in response to this issue, the programme team had raised a formal Issue report recording the details of this issue and including the related cause and consequence. As a response, the Programme Team has created an action plan. At the time of our review work was still on-going to identify the extent of the potential impact that this issue was likely to have and what the remediation action would be.

168. Another significant dependency related to the programme plan is the success of the data migration work stream which aims to transfer data required to enable processing of the PVG scheme onto the new cloud platform. The programme plan outlines a number of outstanding tranches of data which still requires to be transferred. The success of this work stream will underpin the ability of the Programme Team to test the newly created functionality. At the time of our audit there were still a number of data sets which still required to be transferred to the new platform with the final cutover date for this activity being July 2019. During the course of our review, Management expressed increased confidence in the data migration work following the success of the data migration for Enhanced applications.

Testing

169. A test strategy document is in place which outlines the high level approach to testing for the programme.

170. The approach for testing taken has been to enable delivery teams to undertake testing within each set sprint cycle. This is to help ensure that testing is “baked into the development” and not left until the end. The idea is that defects can be fixed during development and not left until the end which can cause further delay.

171. A key part of the testing approach is related to the role of Ambassadors. They are business subject matter experts whose role is to test new functionality before it is released for wider testing to confirm that it meets core functionality requirements.

172. The programme plan sets out the time allocation for testing and this is kept under regular review.

Support post go-live

173. There is an agreed plan for support of the system post go-live which is included in the budget. This will include support from BJSS and in-house resources. A key priority post go-live will be to address the technical and functional debt that has accrued during the course of the programme. This is being prioritised to reduce the reliance on manual work-arounds, some of which are only sustainable for a defined period of time.

174. It is intended that in the medium term, Disclosure Scotland in-house resources will assumed responsibility for maintenance and ongoing development of the solution. The in-house resource has been involved in the development of the solution to date.

Contingency Arrangements

175. It was identified that the programme has successfully migrated around 50% of Disclosure Scotland’s product processing capability into PASS. However, there remains the significant risk that outstanding functionality to be delivered as part of the MVS may not be created, tested and made operational by the September 2019 deadline enabling Disclosure Scotland to safely transition from the existing BT platform.

176. In the eventuality that the MVS is not delivered by September 2019, Disclosure Scotland has recognised that there is a requirement to develop contingency measures to allow safeguarding services to be provided. The contingency measures will involve implementing further manual processing arrangements over and above those identified to complement the available functionality within PASS. It is recognised that any contingency arrangements will only be sustainable for a period of time and that normal levels of service may not be achievable. The focus on activity is geared towards minimising the impact on safeguarding responsibilities.

177. The Director of Protection Services and Policy and the Director of Disclosure Services have been assigned responsibility for contingency arrangements and we met with both in late April 2019 to establish what work had been undertaken in developing formal contingency arrangements should there be any failure to deliver the MVS. It was of concern to note that contingency planning arrangements were at their formative stages, especially as the need to develop contingency plans has been known since the re-plan. It was stated that six potential contingency scenarios had been identified and these were to be discussed in more detail as part of a workshop in early May 2019.

178. From these discussions it was identified that preparatory work some contingency measures will

need to be commenced in July 2019. This is due to the need to clear, on-board and train personnel (likely agency personnel) on procedures in sufficient time so that they can support manual procedures in the event of contingency plans having to be invoked.

179. At the time of our audit work contingency plans had not been defined and, as a result, there was no indication of the cost associated with each scenario and this has not been estimated in the financial report submitted to the ARC in May 2019. It will be important for management to undertake a detailed business impact analysis to identify the critical business processes which could be affected by the failure to deliver the MVS by the exit BT deadline. Without this there is the risk that not all elements of effected processes will be identified and analysed considering the activities and resources which will be required to support these over the short, medium and longer term.

Key issues:

180. The programme remains at high risk with limited scope to absorb any delays that result from development and testing work.

181. Contingency arrangements were under-developed at the time of our review with work only commencing in early May 2019. Some contingency measures may have to be implemented in July 2019 but there is no formal planning yet in place and costs are not yet fully understood and budgeted for. Without effective and timely planning for contingencies, the ability to plan for and respond to an event is undermined and could increase safeguarding risks.

Looking forward

182. Since the time of our detailed review, Disclosure Scotland has further developed its contingency arrangements. Cutover is planned to start at the end of July and finish mid-September 2019. Once the cutover of PVG is finished PASS will have all the functionality for the MVS. During August 2019, functionality will be slowly rolled out whilst building up the volume of cases processed through PASS. Disclosure Scotland also intends to roll out training to all staff.

183. From 13 September 2019 all cases will be processed through PASS. If functionality of the MVS is delivered no contingency arrangements will be required (excluding the planned manual workarounds, see exhibit 8). If the expected functionality is not delivered additional agency staff will be required.

184. The lead time for recruiting these agency staff is five weeks. Disclosure Scotland recognises that the recruitment process needs to commence before it is known whether the additional staff will actually be required. Disclosure Scotland recognises that this is essential to ensure their safeguarding role is protected. Disclosure Scotland is committed to ensure safeguarding is at the core of its decision making.

7. Appendices

Appendix 1: Respective responsibilities of the Advisory 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 Minister under section 19(4) of the Public Finance and Accountability (Scotland) Act 2000.

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

- apply on a consistent basis the accounting policies and standards;
- 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 Disclosure Scotland will continue to operate; and
- ensure the regularity of expenditure and income.

Accountable Officer is 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 Disclosure Scotland’s affairs as at 31 March 2019 and of its net expenditure for the year then ended;
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 FReM;
- they 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 Budget (Scotland) Act and the Public Finance and Accountability (Scotland) Act 2000;
- in all material respects, sums paid out of the Scottish Consolidated Fund for the purpose of meeting expenditure shown in the financial statements were applied in accordance with the Scotland Act 1998;
- 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 Public Finance and Accountability (Scotland) Act 2000 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 Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

We are also required to report, 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 accounting records; or

We are also required to report, if in our opinion:

- 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 financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

The Code of Audit Practice frames a significant part of our wider scope responsibilities in terms of four audit dimensions: financial sustainability; financial management; governance and transparency; and value for money.

We have concluded that the full application is not appropriate due to the size of the organisation. As part of our annual audit we consider and report against:

- appropriateness of the disclosures in the governance statement;
- financial sustainability of the body and the services that it delivers over the medium to longer term; and
- review of the progress of Disclosure Scotland's Transformation project.

Independence

International Standard on Auditing (UK) 260 "Communication with those charged with governance" requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

In May 2018, Scott-Moncrieff delivered £2,459 of non-audit services to the Disclosure Scotland's Advisory Board. This work related to a risk appetite workshop. We have considered the potential resulting independence issues in accordance with FRC's Revised Ethical Standard (June 2016). We consulted with Audit Scotland.

We identified the following potential threats to our independence: self-interest, self-review and management. We are satisfied that there is little self-interest as the fee for this work is non-recurring and does not represent a significant amount of the overall audit fee. The workshop was provided by Scott-Moncrieff's internal audit team, separate from the external audit team did not involve management decision making and limited self-review threat.

Confirmation of independence

We confirm that we have complied with the 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.

Audit fee

The audit fee reported in our external audit plan was £43,076 (10% above the Audit Scotland expected fee level, in line with Audit Scotland guidance). Since issuing our External Audit Plan, which was presented to the Audit and Risk Committee in February 2019, we have agreed an increase to our audit fee with Disclosure Scotland. The audit team recognised that we required specialist IT project management skills to review the Transformation Programme. Our Business Technology Consulting Team carried out this independent assessment. The increased audit fee of £53,076 was approved by Audit Scotland.

Appendix 2: Action plan

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

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 immediate 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.

Current year action plan

Action plan point	Issue & recommendation	Management comments
1. Fair pay disclosure Rating **Grade 2** Paragraph Ref 40-42	**Issue** Our audit work identified that agency staff are excluded from the calculation of median remuneration (as disclosed within the remuneration and staff report's fair pay disclosure). Government Financial Reporting Manual indicates the median remuneration should include agency staff costs. Disclosure Scotland has excluded agency staff from the median remuneration as these costs vary significantly year to year therefore would give rise to distorted figures. Disclosure Scotland has provided narrative to explain this. **Risk** There is a risk that the fair pay disclosures do not fully meet the requirements of the FReM. **Recommendation** We recommend Disclosure Scotland reviews this approach in 2019/20 to ensure that the fair pay disclosure fully meets the requirements of the FReM.	Our Median pay is calculated by the SG Analysts from the SG payroll information. No Agency staff or contractors feature in this payroll as these staff are not employed by us and contractors have IR 35 applied to ensure they should not be on the SG payroll. The guidance does say "the calculation should include agency and other temporary employees covering staff vacancies" but the majority of these workers which represent 30% of our staffing complement and 31% of our staffing cost are not civil servants and are employed to meet service demands and not to cover vacancies. "The principle of the disclosure is intended to hold organisations to account for remuneration policy, and in particular, the remuneration of the highest paid director compared with the median remuneration of staff". All staff members of Disclosure Scotland are civil servants of the Scottish Government and Disclosure Scotland does not have a separate remuneration policy. Disclosure Scotland will look at including the median pay of agency staff and contractors in the note explaining why these have not been included within the Disclosure Scotland staff median pay for the 2019-20 Annual Report and Accounts. **Responsible officer:** Head of Finance and Analytical Services **Implementation date:** 30 April 2020

Action plan point	Issue & recommendation	Management comments
2. Openness and Transparency Rating **Grade 2** Paragraph Ref 54	**Issue** We identified that it is difficult to access all Advisory Board and ARC meeting minutes. As Disclosure Scotland is a unique organisation and has to be vigilant in what they can divulge to the public, this is the primary method for ensuring all stakeholders can be kept up to date with operations/current activities etc. Via the website, we could only easily access the most recent copy of the Board/ARC minutes. **Risk** There is an increasing focus on how public money is used and what is achieved.	Disclosure Scotland will review and make a decision on how to proceed. Need to survey customers to ascertain if the mygov platform is fit for purpose and does it meet stakeholder/customer needs? Will require assessing the business / cost / vfm implications that we will need to scope. **Responsible officer:** Director of Disclosure Services **Implementation date:** 31 December 2020

Action plan point	Issue & recommendation	Management comments
	Openness and transparency supports understanding and scrutiny. There is a risk that Disclosure Scotland fails to keep pace with public expectations and good practice. **Recommendation** We recommend that Disclosure Scotland consider storing all Board/ARC minutes in a folder on their website which would provide an easy access point for all stakeholders looking to access such information.	

Follow up of prior year recommendations

There were no recommendations raised following the 2018/19 Audit. At the stage of our 2017/18 Annual Audit Report, three recommendations raised within our 2016/17 Annual Audit Report were outstanding. All these recommendations have now been implemented. Details are given below.

1. Governance: Framework Document

Initial rating	Issue & recommendation	Management comments
Grade 2	**Observation** Upon review of the Disclosure Scotland Framework Document, it was identified that this was last reviewed in 2015 and is therefore outdated to reflect terms of reference changes in 2016-17. **Recommendation** We acknowledge that the framework document is currently under review by the Accountable Officer of Disclosure Scotland, and advise this is completed within the 2017/18 financial year to ensure it reflects up to date Disclosure Scotland governance arrangements.	Framework document revised, presented to the Advisory Board in September 2018, comments incorporated before sending to Director of Children and Families. The Framework Document has received Ministerial approval and is published on mygov.scot. The Disclosure Scotland's ARC has ratified Framework Document. **Responsible Officer:** Director of Corporate Service **Implementation date:** June 2018

Current status	Audit update	Management response
Complete	Recommendation complete.	N/A

2. Value for Money: Strategic Performance Management

Initial rating	Issue & recommendation	Management comments
Grade 3	**Observation** Disclosure Scotland do not have a formally documented Performance Management Framework, therefore it is not explicitly transparent how the 34 operational KPI's translate to the 17 success objectives set out in the 2016-17 ABP. There is therefore a risk that Disclosure Scotland's Board and stakeholders are unclear on the performance of Disclosure Scotland against its ABP. **Recommendation** We therefore recommend that Disclosure Scotland formally document their new 2018-2021 Performance Management Framework.	External Audit have had sight of the Framework as it was being developed and this was updated to reflect input. Framework signed-off by Leadership Team on 01/10/2018 and agreed at DS Board on 24/10/18 subject to amendments advised by Non-Executive Board Members. **Responsible Officer:** Director of Corporate Service **Implementation date:** October 2018

Current status	Audit update	Management response
Complete	Recommendation complete.	N/A

3. Value for Money: Strategic Performance Management

Initial rating	Issue & recommendation	Management comments
Grade 2	**Observation** An annual performance report is presented to the Board detailing performance against the 17 success objectives set out in the ABP. There is therefore concern that Disclosure Scotland is not sufficiently measuring and reporting performance against the ABP success objectives on a timely basis throughout the year. In order for the Board to sufficiently monitor Disclosure Scotland's progress against the ABP success objectives, it is recommended that Disclosure Scotland review current performance reporting arrangements. **Recommendation** In order for the Board to sufficiently monitor Disclosure Scotland's progress against the ABP success objectives on a timely basis, it is recommended that Disclosure Scotland review the frequency of current performance reporting arrangements.	External Audit have had sight of the Framework as it was being developed and this was updated to reflect input. Framework signed-off by Leadership Team on 01/10/2018 and agreed at DS Board on 24/10/18 subject to amendments advised by Non-Executive Board Members. **Responsible Officer:** Director of Corporate Service **Implementation date:** October 2018

Current status	Audit update	Management response
Complete	Recommendation complete.	N/A

Appendix 3: Transformation Programme timeline

The timeline below sets out the Transformation Programme's key milestones.