



Disclosure Scotland

External Audit Annual Plan

2020/21

February 2021



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Introduction



Introduction

1. This document summarises the work plan for our 2020/21 external audit of Disclosure Scotland.
2. The core elements of our work include audits of:
 - the 2020/21 annual report and accounts and related matters;
 - the Disclosure Scotland's arrangements for financial sustainability, financial management, governance and transparency and value for money; and
 - any other work requested by Audit Scotland.
3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including central government bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including monitoring the performance of auditors through a quality control process.
5. The Auditor General has appointed Azets as external auditor of Disclosure Scotland for the six year period 2016/17 to 2021/22¹. This document summarises the audit plan for 2020/21 and includes;
 - the responsibilities of Azets as the external auditor;
 - our audit strategy;
 - our planned audit work and how we will approach it;
 - our proposed audit outputs and timetable; and
 - background to Azets and your Engagement Lead.

Audit appointment

3. The Auditor General for Scotland is an independent Crown appointment, made on the recommendation of the Scottish Parliament. The Auditor General is independent and not subject to control of any member of the Scottish Government or the Parliament. The Auditor General is responsible for securing the audit of the Scottish Government and most public bodies, including central government bodies in Scotland, and reporting on their financial health and performance.
4. Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including monitoring the

Auditor independence

6. International Standards on Auditing in the UK require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
7. We comply with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, the audit process is independent and our objectivity is not compromised in any way.
8. We set out in Appendix 2 our assessment and confirmation of independence.

¹ In October 2020, the Auditor General extended our audit appointment for one year through to the audit of

the 2021/22 financial year to provide continuity and stability in the current challenging environment.

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 any member of your audit team.

Openness and transparency

11. This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Respective responsibilities of the auditor and Disclosure Scotland

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Respective responsibilities of the auditor and Disclosure Scotland

Auditor responsibilities

Code of Audit Practice

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

Our responsibilities

13. Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK), professional requirements and best practice. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on the financial statements and the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports;
- notify the Auditor General when circumstances indicate that a statutory report may be required; and
- demonstrate compliance with the wider scope of public audit.

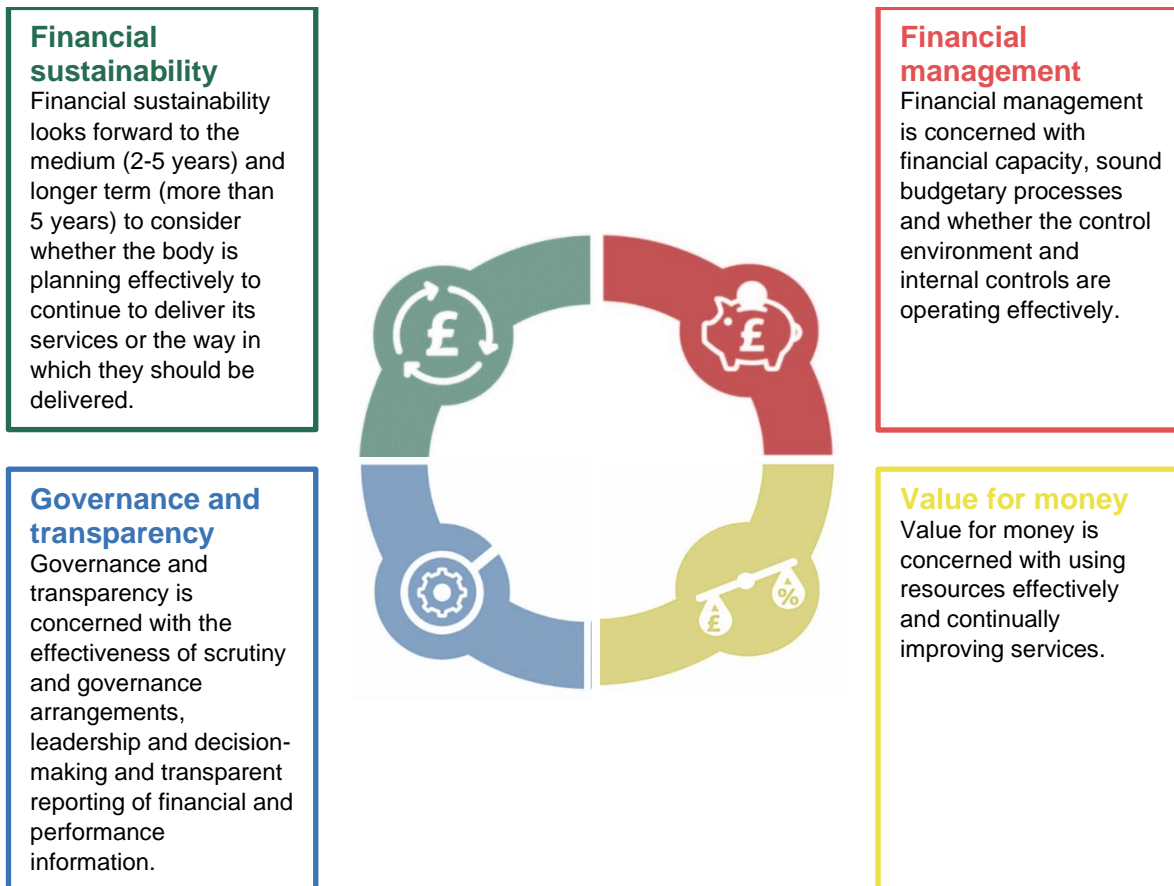
Wider scope audit work

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

15. The Code of Audit Practice sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas. These are summarised in Exhibit 1.

Exhibit 1: Audit dimensions within the Code of Audit Practice



16. We have concluded that application of the full wider scope is appropriate at Disclosure Scotland.
17. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code of Audit Practice and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Disclosure Scotland responsibilities

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

Exhibit 2: Disclosure Scotland's responsibilities

Area	Disclosure Scotland's responsibilities
<p>Financial statements: Annual accounts containing financial statements and other related reports should be prepared.</p>	<p>Disclosure Scotland has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of its financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support its financial statements and related reports disclosures; • ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; • maintaining proper accounting records; and • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that is consistent with the disclosures made in the financial statements.
<p>Financial sustainability: Financial sustainability looks forward to the medium and longer term to consider whether the organisation is planning effectively to continue to fulfil its functions in an affordable and sustainable manner.</p>	<p>Disclosure Scotland is responsible for putting in place proper arrangements to ensure the financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.

Area	Disclosure Scotland's responsibilities
<p>Financial management: Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>Disclosure Scotland is responsible for ensuring that financial affairs are conducted in a proper manner. Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance.</p> <p>Disclosure Scotland is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal.</p> <p>Disclosure Scotland is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Governance and transparency: Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p>Disclosure Scotland, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p> <p>Disclosure Scotland is also responsible for establishing effective and appropriate internal audit and risk management functions.</p>
<p>Value for money: Value for money is concerned with the appropriate use of resources and ensuring continual improvement of services delivered.</p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

Audit strategy



Audit strategy

Risk-based audit approach

19. We follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to Disclosure Scotland. This

ensures that our audit focuses on the areas of highest risk. Our audit planning is based on:



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

Professional standards and guidance

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

Communication with those charged with governance

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

Partnership working

23. We coordinate our work with Audit Scotland, internal audit, other external auditors and relevant scrutiny bodies,

recognising the increasing integration of service delivery and partnership working with the public sector.

Audit Scotland

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

Internal Audit

26. We will consider the findings of the work of internal audit within our audit process and look to minimise duplication of effort, to ensure the total audit resource to Disclosure Scotland is used efficiently and effectively.

Shared systems and functions

27. Audit Scotland encourages auditors to seek efficiencies and avoid duplication of effort by liaising closely with other external auditors, agreeing an appropriate division of work and sharing audit findings. Disclosure Scotland uses the Scottish Government accounting systems (SEAS), purchasing system and payroll services. The appointed auditor to the Scottish Government will share with us their findings on work carried out on those systems.

COVID-19 – impact on our 2020/21 audit strategy

28. The COVID-19 pandemic has had, and continues to have, a significant and profound effect on every aspect of Scottish society.
29. We appreciate that different organisations have been impacted differently by COVID-19, as have finance teams, and some organisations are better set up for remote working. We also know that plans can change quickly and it only takes the absence of one key member of staff from a finance team to have a big impact. Equally our own teams may also be impacted by the pandemic. The wellbeing of our clients and our staff is paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance.

Remote working

30. As we do not know when the current restrictions will end, we are planning to carry out our 2020/21 audit remotely.

As in 2019/20 we have the following arrangements in place:

- All of our people have the equipment, technology and systems to allow them to work remotely, including secure access to all necessary data and information.
- All of our staff are fully contactable by email, phone call and video-conferencing.
- All meetings are now held over Skype, Microsoft Teams or by telephone.
- We are keeping all of our staff fully up to date with the latest government guidance in order to keep everyone as safe as possible.

31. If resourcing levels in any part of our business are compromised due to illness or inability to work, we will refocus our teams as necessary to deliver to deadlines. Our teams are holding regular catch ups to allow us to re-prioritise workloads as necessary.

Secure sharing of information

32. We use a cloud-based file sharing service that enables users to easily and securely exchange documents.

Audit evidence

33. Working remotely, does unfortunately result in the audit team requesting audit evidence which we would have previously obtained through other means, for example, face to face meetings or access to systems and client premises.
34. Where required we will consider other ways in which we can obtain audit evidence or carry out alternative audit procedures.

35. We will employ greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.

Regular contact

36. During the 'fieldwork' phase of our audit, we will look to agree regular catch-ups with key personnel to discuss the progress of the audit. The frequency of these meetings will be discussed and agreed with management.

Audit reporting

37. It may be that the current circumstances lead to more modified opinions in auditor's reports, than would typically have been the case in previous years.
38. Where necessary, we will engage with the Audit and Risk Committee to explain the implications of our proposed report and consider whether there are other procedures that could be undertaken, at a future point yet to be determined, which could mitigate any modification either fully or in part.
39. Sufficient time should be set aside by the Audit and Risk Committee to allow for comprehensive, complete and informed communication with the auditor. This will need to take account of the potential for extended communication to explain any modified audit reports, or to report any higher than expected deficiencies or misstatements, that may result from the current circumstances.
40. Audit Scotland uses a system for electronic signatures (DocuSign) that it recommends all bodies use for signing annual accounts. Annual accounts

signed electronically are acceptable for laying in Parliament.

41. Electronic signatures simplify the process of signing the accounts. Accounts can be signed using any device from any location. There is no longer a need for duplicate copies to be signed, thus reducing the risk of missing a signature and all signatories have immediate access to a high quality PDF version of the accounts.
42. We propose using DocuSign in 2020/21 (as was used in 2019/20).

Annual report and accounts

Annual report and accounts

Introduction

43. Audited bodies' annual accounts are an essential part of accounting for their stewardship of the resources made available to them and their financial performance in the use of those resources. This section sets out our approach to the audit of Disclosure Scotland's annual report and accounts.
44. The annual report and accounts comprise the financial statements, the performance report and the accountability report.
49. We will take cognisance of any relevant internal audit reviews of systems and controls.
50. Since the start of the pandemic, the risk of fraud and error has increased as the control environment and internal controls change. Potential areas of risk include:
- Public sector staff working under extreme pressure leading to some internal controls being suspended or relaxed;
 - Procurement fraud or, normal controls being relaxed to allow bodies to buy goods or services which are required urgently, possibly from new suppliers;
 - Weakened governance arrangements;
 - Admin and finance staff being redeployed to operational areas; and
 - Staff working remotely may pose potential security risks e.g. when using personal devices and/or using removable devices to download data.

Approach to audit of the financial statements

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

Risk-based audit planning

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

Accounting systems and internal controls

47. We evaluate the key accounting systems and internal controls and determine whether they are adequate to prevent material misstatements in the financial statements
48. The systems we review and the nature of the work we perform will be based on the initial risk assessment. We will examine and test compliance with best practice and Disclosure Scotland's own policies and procedures.
51. We will update the risk assessment following our evaluation of systems and controls, considering the impact the pandemic has had on Disclosure Scotland's accounting systems and controls. This will ensure that we continue to focus attention on the areas of highest risk.
52. This work is not for the purpose of expressing an opinion on the effectiveness of internal controls. We will report to Disclosure Scotland significant deficiencies in internal

controls that we identify during the audit. These matters will be limited to those which we conclude are of sufficient importance to merit being reported. The scope of our work is not designed to be an extensive review of all internal controls.

Prevention and detection of fraud or error

53. We plan our audit in such a way as to obtain reasonable assurance of detecting material misstatements in the financial statements resulting from fraud or error.
54. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
55. We will assess the susceptibility of Disclosure Scotland's financial statements to material misstatement, including obtaining an understanding of how fraud might occur, by:
 - making enquiries of management as to where they considered there was susceptibility to fraud, their knowledge of actual, suspected and alleged fraud; and
 - considering the internal controls in place to mitigate risks of fraud and non-compliance with laws and regulations.
56. Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be

relied upon for this purpose. Material misstatements that arise due to fraud can be harder to detect than those that arise from error as they may involve deliberate concealment or collusion.

Laws and regulations

57. We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact the financial statements. Our audit procedures include the following:
 - Identification of the laws and regulations applicable to Disclosure Scotland through enquiries with management, and from our knowledge and experience of the organisation and sector;
 - A focus on specific laws and regulations which we consider may have a direct material effect on the financial statements or the operations of Disclosure Scotland;
 - Reviewing minutes of relevant meetings;
 - Enquiring of management and Disclosure Scotland's legal representatives the position in relation to litigation, claims and assessments; and
 - Performing detailed testing of transactions and balances.
58. There are however inherent limitations in our audit procedures described above. The more removed that laws and regulations are from financial transactions, the less likely it is that we would become aware of non-compliance.

A final audit of the financial statements

59. During our final audit we will test and review the material amounts and disclosures in the financial statements. The extent of testing will be based on our risk assessment.
60. Our final audit will seek to provide reasonable assurance that the financial statements are free from material misstatement and comply with the Government Financial Reporting Manual (FReM) and the Accounts Direction issued by Scottish Ministers.
61. In order to provide assurance on the regularity of transactions, we also review whether, in all material respects, expenditure has been incurred and income applied in accordance with guidance issued by Scottish Ministers.

Independent auditor's report

62. Our opinion on whether the financial statements give a true and fair view of the financial position and net expenditure and of the regularity of transactions will be set out in our independent auditor's report which will be included in the annual report and accounts.
63. We also provide an opinion on the audited part of the remuneration report, annual governance statement and performance report.

Materiality

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

a matter of professional judgement over both the amount and the nature of the misstatement. We review our assessment of materiality throughout our audit.

65. Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out. We perform audit procedures on all transactions, or group of transactions, and balances that exceed our performance materiality. This means that we perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.
66. Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceed overall materiality.
67. Our initial assessment of materiality and performance materiality is set out in the following table:

	Materiality £000
Overall materiality: Our initial assessment is based on approximately 1.8% of Disclosure Scotland’s 2019/20 gross expenditure which is considered one of the principal considerations for users of the financial statements when assessing financial performance.	660
Performance materiality: using our professional judgement we have calculated performance materiality at approximately 75% of overall materiality.	495
68. We will report any misstatements identified through our audit that fall into one of the following categories:	

- All material corrected misstatements;
- Uncorrected misstatement with a value in excess of 5% of the overall materiality figure; and
- Other misstatements below 5% threshold that we believe warrant reporting on qualitative grounds.

Key audit risks in the financial statements

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

Exhibit 3 – Key audit risks in the financial statements

Management override

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

70. In response to this risk we will review Disclosure Scotland’s accounting records and obtain evidence to ensure that any significant transactions outside the normal course of business are valid and accounted for correctly. We will adopt data analytics techniques to review and test aspects of this significant risk. We will assess whether judgements and assumptions made in determining accounting estimates as set out in the financial statements are indicative of potential bias.

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 income and expenditure transactions in such a way as to lead to a material misstatement in the reported financial position.

71. In respect of funding from Scottish Government, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate this revenue stream. However, the risk of fraud in relation to revenue recognition is present in all other revenue streams. We will evaluate each material revenue stream, including the controls over revenue accounting. We will conduct substantive testing on all material revenue streams to confirm revenue has been recognised appropriately and in line with accounting policies.

Risk of fraud in the recognition of expenditure

As most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.

72. In response to this risk we will evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. We will consider Disclosure Scotland's key areas of expenditure and obtain evidence that the expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year. We will review accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Other risk factors

Impact of COVID-19 on the financial statements

73. Further to the identification of significant audit risks, we also continue to monitor the impact COVID-19 could have on the financial statements. COVID-19 continues to present unprecedented challenges to the operation, financial management and governance of organisations, including public sector bodies. It is uncertain how long these challenges will persist.
74. We continue to monitor government and relevant announcements as they pertain to the audit and will adapt our audit approach as required.

Accounting estimates

75. Changes to ISA (UK) 540 - Auditing Accounting Estimates and Related Disclosures which is applicable for accounting periods beginning on or after 15 December 2019 places increased regulatory requirements on the auditor in respect of the auditing of significant estimates at the planning and completion stages of the audit.
76. As part of the planning stages of the audit we identified all accounting estimates made by management and determined which of those are key to the overall financial statements. Consideration was given to asset valuations, impairment, depreciation and amortisation rates, provisions for legal obligations and doubtful debts, and accruals. We have not determined the accounting estimates to be significant. We will however revisit our assessment during the fieldwork and completion stages of our audit.

The performance report, accountability report and other information

77. The HM Treasury Government Financial Reporting Manual 2020/21 sets out the content required within the annual report and accounts. In response to the continuing impact of COVID-19; HM Treasury has issued an addendum to the Government Financial Reporting Manual 2020-21 which sets out the minimum reporting requirements in respect of the performance report and accountability report.
78. The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report. Where relevant performance information has already been published elsewhere, bodies are encouraged to refer to the relevant publication.
79. Where unaudited information otherwise required to be included in the Accountability Report is already published elsewhere, bodies are permitted to refer to the relevant publication rather than including the information in their Accountability Report.
80. In addition to presenting our opinions over the financial statements our independent auditor's report will also present our opinion on the other aspects of the annual report and accounts:

Other information

81. "Other information" in the annual report and accounts comprises any information other than the financial statements and our independent auditor's report thereon. We do not

express any form of assurance conclusion on the “other information” except as specifically stated below.

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

costs as well as the entity’s remuneration policy for directors and the remuneration awarded to directors.

- A parliamentary accountability report disclosing the regularity of expenditure and other parliamentary accountability requirements.
85. Our independent auditor’s report will confirm whether in our opinion the governance statement and the audited part of the remuneration and staff report have been properly prepared and are consistent with the financial statements.

The performance report

83. The performance report provides information on the entity, its main objectives and strategies and the principal risks that it faces. Our independent auditor’s report will confirm whether in our opinion the performance report has been properly prepared and is consistent with the financial statements.

The accountability report

84. The accountability report is required in order to meet key parliamentary accountability requirements. It has three sections:
- A corporate governance report (including a governance statement) explaining the composition and organisation of the entity’s governance structures and how they support the achievement of the entity’s objectives.
 - A remuneration and staff report setting out staff numbers and

Wider scope audit



Wider scope audit

Introduction

86. As described in section 2, 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
 - value for money.
87. Our planned audit work against these four areas is risk based and proportionate. Our initial assessment builds upon the understanding of Disclosure Scotland's key priorities and risks which we developed from previous years, along with discussions with management and review of committee minutes and key strategy documents.
88. The risk profile of public bodies for the 2020/21 audits is significantly affected by the COVID-19 pandemic. The pandemic has highlighted the importance of many long-standing issues facing public sector bodies such as the need for good governance, openness and transparency, and effective longer-term planning to deliver better outcomes. The risks and challenges associated with these issues have become greater due to the pandemic.
89. In 2020/21, Audit Scotland has requested that external auditors focus on risks relating to governance and transparency, financial sustainability and counter-fraud arrangements in light of the impact of COVID-19. We will consider these risk areas in the context of our wider scope audit work and include commentary in our annual audit report as appropriate.
90. We have not, at this stage, identified any significant risks in relation to our wider scope audit. Audit planning however is a continuous process and we will report all identified significant risks in our annual audit report. Exhibit 4 summarises our audit work in respect of each dimension.

Exhibit 4 - Our audit approach to the wider scope audit dimensions



Financial sustainability

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

Consideration	Our audit approach
<p>In response to a strategic need of being an increasingly efficient organisation with reduced funding needs, Disclosure Scotland prepared a Strategic Finance paper. This paper explores key themes that will lead to the realisation of savings over the next four years and beyond this period.</p> <p>The longer term plan is being able to reach a position to achieve a funding position whereby the funding required (if any) from the Scottish Government is kept at the lowest possible level. The paper details awareness of financial drivers of the organisation, the best value for money opportunities, associated risks, and confidence levels and assessment of cost reductions/efficiencies which can be achieved for each key theme.</p> <p>During 2019/20 Disclosure Scotland developed financial models to understand its expected financial position following the introduction of the Disclosure (Scotland) Act 2020.</p> <p>The models take into account the different implementation options from the scheme. Under the current assumptions, Disclosure Scotland would be in a net contribution position to the Scottish Government over a five year period.</p>	<p>During our audit we will continue to review whether Disclosure Scotland has appropriate arrangements in place to manage its financial position. Our work will include an assessment of progress made in developing financially sustainable plans which reflect the medium and longer term impact of COVID-19 and that continue to support the delivery of Disclosure Scotland’s statutory functions and strategic objectives.</p>

Consideration

Our audit approach

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.

Historically, Disclosure Scotland has been a net funder to the Consolidated Fund. However, the loss of economies of scale brought about by the transfer for processing English and Welsh applications, the short term costs of the Transformation Programme, compliance requirements associated with the introduction of the new Disclosure (Scotland) Act and the impact of the COVID-19 pandemic introduces a risk to Disclosure Scotland’s financial sustainability, with a funding gap that was identified in 2019/20 and moving forward into 2020/21.

Disclosure Scotland has undertaken a detailed analysis of the potential ongoing impact of COVID-19 on current and future operations, this has included an analysis of a range of options to mitigate operational and financial risks and these options are subject to ongoing discussion with the Scottish Government.



Financial management

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

Consideration

Disclosure Scotland, to date, has reported a £7.1 million funding pressure to Scottish Government for 2020/21.

£6.6 million is for loss of income, including the free checks for the National response for COVID-19 and the depressed demand experienced due to the economic downturn.

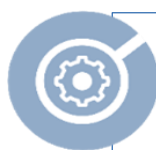
£0.5 million is for an anticipated upward movement in untaken annual leave at year-end.

Disclosure Scotland has advised Scottish Government that some of the lost income would be absorbed with the organisation taking a proactive approach to identifying efficiencies and realising cost reductions.

Our audit approach

During our 2020/21 audit we will review, conclude and report on the following:

- The achievement of financial targets;
- Whether Disclosure Scotland can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely performance;
- Whether Disclosure Scotland has arrangements in place to ensure systems of internal control are operating effectively; and
- Whether Disclosure Scotland has established appropriate and effective arrangements for the prevention and detection of fraud and corruption, with particular focus on changes in the control environment during the pandemic and fraud and corruption in the procurement function.



Governance and transparency

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

Consideration

Disclosure Scotland updated its governance arrangements in a number of different ways in response to the pandemic, whilst those charged with governance maintained their statutory duties.

A COVID-19 specific risk register was produced to identify, manage and control risks and challenges which the pandemic presented.

Disclosure Scotland also moved to a more agile mode of governance. One major change through the pandemic included the Board of Directors meeting on a weekly, remote basis. The Board also planned for the longer term in developing the recovery strategy and aiding the remobilisation efforts.

During 2020, Disclosure Scotland developed a strategic proposal on Agile Governance. The aim is for governance structures to be more transparent and provide Non-Executive Board Members (NEBM) a better understanding of the organisation; allowing for appropriate scrutiny, challenge and assurance to decision-making. Going forward, Disclosure Scotland will have five innovative change teams (hurricanes):

- Digital

Our audit approach

We will review and report on Disclosure Scotland's governance arrangements; considering any changes to those arrangements in response to the pandemic. In particular we will consider whether:

- the revised governance arrangements are appropriate and operating effectively
- there is effective scrutiny, challenge and informed decision making.

We will consider Disclosure Scotland's risk management arrangements in the context of the pandemic. We will review:

- Arrangements and reporting of the identification, likelihood and impact of new risks as a result of the pandemic;
- Consideration of risk appetite during this period to enable services to operate effectively and respond to issues in a timely manner.
- The longer term impact of the pandemic on Disclosure Scotland's risk register.

We will review the effectiveness of the new agile governance framework and the extent to which board, committee, change group

Consideration	Our audit approach
<ul style="list-style-type: none"> • Stakeholder Engagement and Social Mission • Business Improvement • Disclosure Act • Strategic Finance <p>Each of these groups will be supported by an independent governance panel, chaired by a NEBM.</p> <p>The establishment of the new governance structure is progressing.</p>	<p>and panel roles, membership and terms of reference comply with current guidance.</p>



Value for money

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

Consideration

Disclosure Scotland contributed to the National response by prioritising disclosure checks for priority workers from 23 March to 9 June, coinciding with the nationwide lockdown and phases 1 and 2 of the Scottish Government’s response plan. This approach will continue for the entirety of this financial year.

Disclosure Scotland opened up payment channels for Basics on 9 June and for PVG, Standard and Enhanced on 26 June.

Disclosure Scotland has continued to deliver against its Service Level Agreement (SLA)² for the checks done for the National pandemic response.

The introduction of the new PASS system for processing applications is making a significant contribution to operational efficiency. However, the system requires a number of manual workarounds until further capital investment is available to address known technical gaps. These manual workarounds cost over £2million per year by requiring the continued employment of agency staff to process the manual workarounds. Addressing these manual workarounds remains an operational priority for Disclosure Scotland.

The move to PVG (Protecting Vulnerable Groups) applications all being online is progressing.

Our audit approach

The COVID-19 pandemic is expected to have had a substantial impact on performance measures, particularly for services which have been temporarily suspended, are operating at a reduced level or have had to adapt to new ways of working.

We will review performance reporting in 2020/21 to ensure it is timely, reliable, balanced, transparent and appropriate to user needs.

We will review evidence which demonstrates the achievement of value for money in the use of its resources.

Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. We will work with Audit Scotland during the year to understand the outputs from this work and identify any particular reports that Disclosure Scotland may have a direct interest in.

² The Service Level Agreement is to send 90% of disclosure certificates within 14 days (as long as the application was completed correctly and there are no further enquiries).

Audit outputs, timetables and fees



Audit outputs, timetable and fee

Audit outputs

The submission deadline for the annual accounts is set to be consistent with the administrative deadline set by the Scottish Government. The deadline for the annual accounts is 31 August. The statutory deadline for laying the accounts is 31 December.

We have set out below target months which align to Disclosure Scotland's 2021 schedule of Audit and Risk Committee and Board meetings. We will aim to meet these scheduled meetings however this will be monitored during the audit process and may require to be revised to reflect emerging issues as a result of the pandemic.

Audit output	Description	Target month	Deadline for submission to Audit Scotland
External audit plan	This report sets out the scope of our audit for 2020/21.	February 2021	31 March 2021
Independent Auditor's Report	This report will contain our opinion on the financial statements, the audited part of the remuneration report, annual governance statement and performance report.	August 2021	31 August 2021
Annual Report to Disclosure Scotland and the Auditor General for Scotland	At the conclusion of each year's audit we issue an annual report setting out the nature and extent of our audit work for the year and summarise our opinions, conclusions and the significant issues arising from our work. This report pulls together all of our work under the Code of Audit Practice.	August 2021	31 August 2021

91. Prior to submitting our outputs, we will discuss all issues with management to confirm factual accuracy and agree a draft action plan where appropriate. progress against the action plans on a regular basis.
92. The action plans within the reports will include prioritised recommendations, responsible officers and implementation dates. We will review

Audit fee





93. Audit Scotland sets an expected audit fee that assumes the body has sound governance arrangements in place, has been operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for audit. The expected fee is reviewed by Audit Scotland each year and adjusted if necessary based on auditors' experience, new requirements, or significant changes to the audited body.
94. Audit Scotland is not empowered to levy charges on Disclosure Scotland and the costs of auditing Disclosure Scotland is met from Parliamentary funding. Although Disclosure Scotland is not required to meet the resulting cash cost of the audit fee, it is required to disclose notional audit fees in the financial statements. This will count against budget cover and reflect, among other things, the standard of governance and control perceived to be in place in the body.
95. As auditors we negotiate a fee with Disclosure Scotland during the planning process. The fee may be varied above the expected fee level to reflect the circumstances and local risks within the body.
96. For 2020/21 we propose setting the audit fee above the expected fee level.

	2020/21	2019/20
Auditor remuneration	£35,460	£33,506
Pooled costs	£8,180	£7,890
Contribution to Audit Scotland costs	£1,380	£1,580
Total fee	£45,020	£42,976

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

Audit timetable

98. A summary timetable, including audit outputs, is set out as follows:

FEB 21		Planning meeting to inform the 2020/21 audit
FEB 21		Presentation of External Audit Plan to the Audit and Risk Committee
JUL 21		Accounts presented for audit and final audit visit begins
AUG 21		Presentation of our Annual Report on the Audit to the Audit and Risk Committee

Appendices



Appendix 1: Azets

On 7 September 2020, the Cogital Group of companies (Scott-Moncrieff, Campbell Dallas, Baldwins and Wilkins Kennedy) came together as Azets. Whilst it is a new name, we still deliver the same personal approach to accounting, tax, audit, advisory and business services, digitally and locally.

With over 6,500 advisers and specialists across our office network, we help people and organisations of all shapes and sizes save time, work smarter and achieve their goals. Our job is to give you the support you need so you can focus on what you do best.

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

Your Engagement Lead



Gary Devlin

Audit Partner

gary.devlin@azets.co.uk

Gary has over 20 years' experience in undertaking audit work across a wide range of public sector organisations.

Gary will have overall responsibility for the delivery of the audit.

Appendix 2: Confirmation of 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 particular, FRC's Ethical Standard stipulates that where an auditor undertakes non audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. Azets has not been appointed by Disclosure Scotland to provide any non-audit services during the year.

We confirm that we comply with FRC's Ethical Standard. 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 Azets and Disclosure Scotland, its Board members and senior management that may reasonably be thought to bear on our objectivity and independence.

Appendix 3: Statement of understanding

Introduction

The purpose of this statement of understanding is to clarify the terms of our appointment and the key responsibilities of Disclosure Scotland and Azets.

Annual report and accounts

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

Fees

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

Representations

As auditors we do not act as a substitute for Disclosure Scotland's responsibility to

establish proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively.

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

Internal audit

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

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

Fraud and irregularity

In order to discharge our responsibilities regarding fraud and irregularity we require any fraud or irregularity issues to be reported to us as they arise. In particular we require to be notified of all frauds which:

- Involve the misappropriation of theft of assets or cash which are facilitated by weaknesses in internal control
- Are over £5,000

We also require a historic record of instances of fraud or irregularity to be

maintained and a summary to be made available to us after each year end.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 impose an obligation on the Auditor General to inform the National Crime Agency (NCA) if he knows or suspects that any person has engaged in money laundering or terrorist financing.

We require Disclosure Scotland to notify us on a timely basis of any suspected instances of money laundering so that we can inform Audit Scotland who will determine the necessary course of action.

Ethics

We are bound by the ethical guidelines of our professional body, the Institute of Chartered Accountants in England and Wales.

Service

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

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

Reports

During the course of the audit we will produce reports detailing the results and conclusions from our work.

Any recommendations arising from our audit work will be included in an action plan. Management are responsible for providing responses, including target dates for implementation and details of the responsible officer.

Agreement of terms

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



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