



Disclosure Scotland

Final report to the Audit and Risk Committee and the Auditor General for Scotland on the on the 2022/23 audit

Issued on 8 August for the meeting on the 15 August 2023

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1.1 Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Risk Committee (“the Committee”) of Disclosure Scotland (“DS”) for the 2022/23 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report presented to the Committee in March 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Report and Accounts and our knowledge of DS. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the Remuneration and Staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page [9](#). DS met its financial targets for 2022/23, achieving a surplus of £4.149m.

No material misstatements have been identified to date and there are no uncorrected misstatements. We have not identified any misstatements in excess of our reporting threshold.

1.2 Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final Annual Report and Accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2023.

Conclusions from wider scope audit work

Financial management – Improvements have been made to the budget setting and monitoring arrangements in place during the year, with revised monitoring reports providing greater focus on key areas. The Board’s input to the budget setting process could be enhanced to provide additional scrutiny and challenge at the time the internal budget allocations are agreed.

While a significant underspend was reported at the end of the year, this was largely as a result of the need to make savings in year, at the request of the Scottish Government. This was achieved through not filling vacancies, and an agreement to defer implementation of the Disclosure (Scotland) Act 2020 (“The Act”) to 2025. While this has allowed savings to be achieved in the short term, it is important that the impact on Disclosure Scotland’s ability to meet its objectives without these posts is closely monitored.

Financial sustainability – Financial balance has been achieved in 2022/23 and the ability to make savings to support the wider Scottish Government has been demonstrated. This has been transparently reported to both the Board and the Scottish Government during the year. Disclosure Scotland’s allocated budget from the Scottish Government Core is below the level needed to meet all its expected commitments and expenses, which may mean the Scottish Government will need to allocate additional budget cover in 2023/24.

The organisation is going through a period of significant organisational and digital change. The building blocks for medium term financial planning are in progress, including the updating of business cases in relation to the change programme, the consultation on future fee level under The Act and the development of a Workforce Plan and Target Operating Model. However, the Finance Strategy needs to be further developed to demonstrate that Disclosure Scotland is financially sustainable in the medium-to-longer term. We will continue to monitor the progress with this during our audit appointment.

Vision, leadership and governance – Disclosure Scotland’s Corporate Strategy clearly sets out the organisation’s purpose and functions and the Business Plan 2023/24 includes the key action for the year in the development of the Target Operating Model to allow Disclosure Scotland to plan for the future, recognising the significant period of change.

1.3 Partner introduction (continued)

The key messages in this report (continued)

Conclusions from wider scope audit work (continued)

The Leadership and governance arrangements have also seen a period of change. This closely follows a previous change introduced in 2021/22. It is important that these new structures are embedded within the culture of the organisations and given time to develop and then formally assess whether they are meeting the requirements and operating effectively.

Temporary changes have been made to the non-executive members of the Board, with further changes planned later in 2023. This needs to be carefully managed given the significant change programme being undertaken across the organisation.

Use of resources to improve outcomes – Disclosure Scotland has a clear performance management framework which has recently been updated with clear performance scorecards to monitor performance. Disclosure Scotland has continued to perform well during 2022/23 and work is progressing as part of The Act readiness work, to consult with customers and considering resourcing needs to set the right timescales for the new products according to the balance of customer needs and value for money. Consideration should be given to if there are other areas where there are specific outcomes that can be monitored and reported to demonstrate continuous improvement.

Best Value - Disclosure Scotland has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. The delivery of the significant digital transformational programme remains a key risk.

Climate change – Recognising the nature of Disclosure Scotland and opportunities to reduce emissions, it is clear that it is committed to take action to meet the Scottish Government’s ambitious targets in relation to sustainability and climate. A clear Strategy or Action Plan should be developed to demonstrate how these targets are to be achieved.

Cyber risk – Cyber security has been a high priority for Disclosure Scotland, particularly in view of the Transformation Programme and digital change.

Next steps

An agreed Action Plan is included on pages [43](#) to [51](#) of this report, including a follow-up of progress against prior year actions.

Added value

Our aim is to add value to Disclosure Scotland by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help Disclosure Scotland promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

Pat Kenny
Lead audit partner

Annual Report and Accounts Audit









2.1 Quality indicators

Impact on the execution of our audit

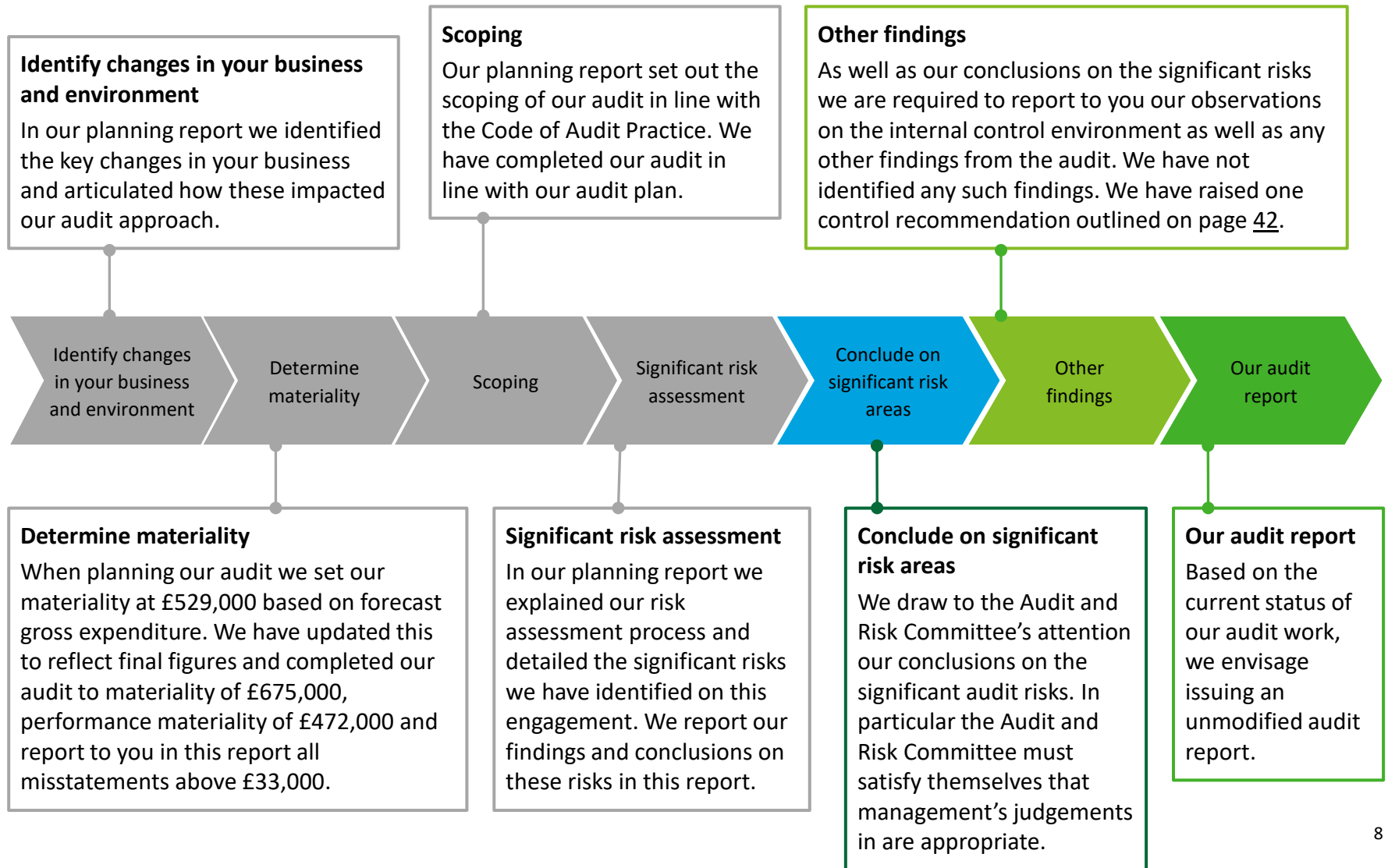
Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

 Lagging
  Developing
  Mature

Area	Grading	Reason	Further detail
Timing of key accounting judgements	N/A	Not applicable as the Annual Report and Accounts do not contain any key accounting judgements.	N/A
Adherence to deliverables timetable		Management provided deliverables within the agreed timelines. Any follow-up requests were actioned quickly.	N/A
Access to finance team and other key personnel		Throughout the audit, there were no issues in accessing members of the finance team and other key personnel.	N/A
Quality and accuracy of management accounting papers		Documentation provided was of a high standard which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Report and Accounts.	N/A
Quality of draft Annual Report and Accounts		The initial version of the draft Annual Report and Accounts was of good quality. We identified minor disclosure recommendations which have been corrected by management.	14
Response to control deficiencies identified		No control deficiencies have been identified.	N/A
Volume and magnitude of identified errors		Our review of the draft Annual Report and Accounts identified minor disclosure deficiencies relating to the Remuneration Report and IFRS 16 which have been corrected by management. We have not identified any financial misstatements to date.	N/A










2.2 Our audit explained

We tailor our audit to your business and your strategy



2.3.1 Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory, with one low priority recommendation raised on page 42	
Operating within the expenditure resource limit			Satisfactory	
Completeness and cut-off of fee income			Satisfactory	

Controls approach adopted

 Assess design & implementation

Controls conclusion


Satisfactory

Not Satisfactory

Consistency of judgements with Deloitte's expectations

 Consistent

 Improvement required

 Inconsistent

2.3.2 Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:
- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. We have determined that accounting estimates are not significant.
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls from our testing. We have raised a recommendation around the control in place for reviewing journal entries. This is discussed further on page [43](#).

2.3.3 Significant risks (continued)

Operating within the expenditure resource limits



Risk identified and key judgements

In accordance with Practice Note 10 (Audit of Annual Accounts of public sector bodies in the United Kingdom), in addition to the presumed risk of fraud in revenue recognition set out in ISA (UK) 240, auditors of public sector bodies should also consider the risk of fraud and error on expenditure. This is on basis that most public bodies are net spending bodies, therefore the risk of material misstatement due to fraud related expenditure may be greater than the risk of material misstatement due to fraud related to revenue recognition.

We consider this fraud risk to be focused on how management operate within the resource budget set by the Scottish Government. The risk is that Disclosure Scotland could materially misstate expenditure in relation to year end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the cut-off and completeness of accruals and the existence of prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance;
- Confirming the resource limits allocated to DS by the Scottish Government by reference to the Budget Act ;
- Performing focused testing of accruals and prepayments made at the year end; and
- Performing focused cut-off testing of invoices received and paid around the year end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers.

Based on our testing, we confirm that DS has performed within the limits set by Scottish Government, achieving a surplus of £4.149m and therefore is in compliance with the financial targets in the year.

2.3.4 Significant risks (continued)

Completeness and cut -off of fee income



Risk identified and key judgements

ISA (UK) 240 states that when identifying and assessing the risks of material misstatements due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give risk to such risks.

We have assessed the income streams for Disclosure Scotland and concluded that the risk of a material misstatement due to fraud in relation to Scottish Government funding is limited given the funding can be agreed to confirmations supplied. We have therefore pinpointed our significant risk on disclosure fee income which totalled £16.166m in 2022/23 (£15.516m in 2021/22). In particular, given future year financial pressures and a projected surplus position in the current year, we have pinpointed the risk to completeness and cut-off as management may be incentivised to allocate revenue to future years.



Deloitte response and challenge

Our work in this area included the following:

- Evaluated the design and implementation of controls around recognition of fee income;
- Performed focussed cut-off testing of fee income recognised around the year end by confirming the point of sale for a sample of applications to verify they are recognised in the correct period;
- Performed testing over the completeness of fee income recognised throughout the year by agreeing a sample of applications processed to the income transactions for the year and performing a proof in total;
- Tested the accuracy and occurrence of fee income recognised throughout the year by agreeing a sample of fee income to the application log, the Sage sales system, and through the bank account. These are performed at lower risk as they are not pinpointed as significant risks.

Deloitte view

Based on our testing performed, we have concluded that fee income has been recorded appropriately within the Annual Report and Accounts . Controls in place around recognition of income were found to be designed and implemented satisfactorily.

2.4 Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

DS's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FReM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

There were no significant matters raised with management.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore 2022/23 is the first year of implementation. This required adjustments to recognise on balance sheet arrangements previously treated as operating leases.

DS have one lease falling under the scope of IFRS 16. We have tested the completeness and accuracy of the lease identified on transition with no issues noted. Recommendations were raised to bring the associated disclosures in line with reporting requirements which were accepted by management and are reflected in the final version of the Annual Report and Accounts.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We will obtain written representations from DS on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

2.5 Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

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Our opinion on the Annual Report and Accounts

Our opinion on the financial statements is expected to be unmodified.



Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that it is fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the Annual Report and Accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page [15](#).

2.6 Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines DS's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by DS.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We provided management with comments and suggested changes which management have updated in the revised draft. This included additional disclosure on the risks and challenges faced by DS.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes which management have updated in the revised draft.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction. Minor disclosure points were raised in relation to the Fair Pay disclosure which have been corrected by management.</p>

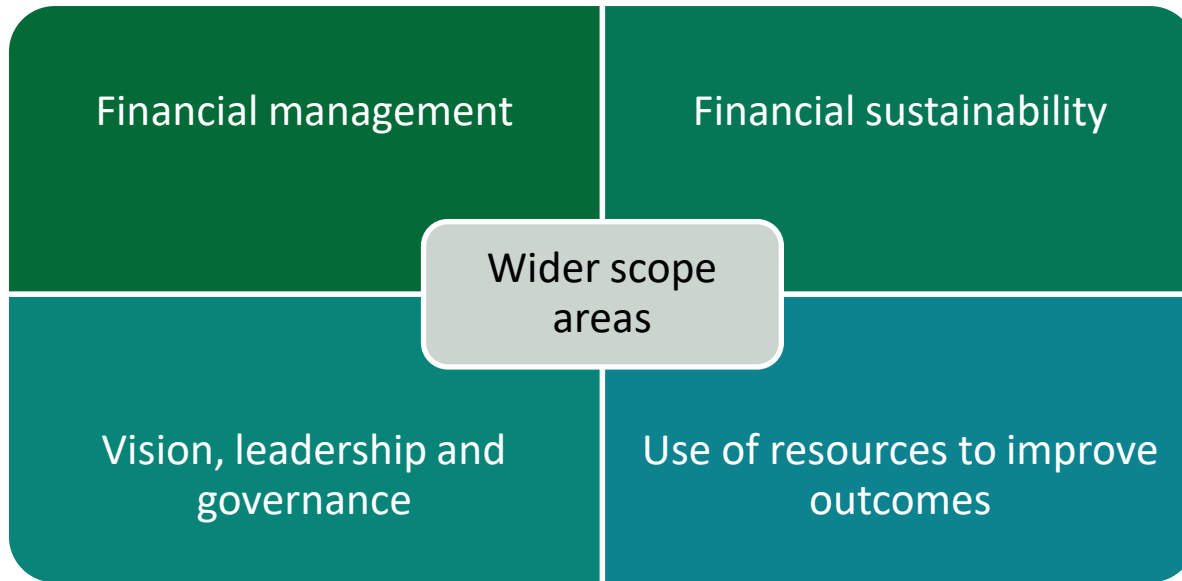
Wider scope audit



3.1 Wider scope requirements

Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



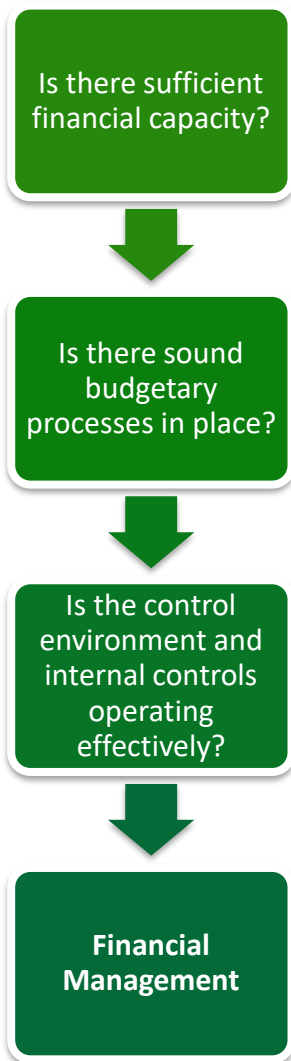
In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Climate change.
- Cyber security.

Our audit work has considered how Disclosure Scotland is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

3.2 Wider scope requirements (continued)

Financial management



Significant risks identified in Audit Plan

In our Audit Plan, we highlighted that significant underspends were noted in prior years and were expected again in 2022/23, therefore there was a risk that the budget setting arrangements are not effective in terms of forecasting and monitoring. We have therefore reviewed and assessed the adequacy of the financial management arrangements in place.

Current year financial performance

As an Executive Agency of the Scottish Government, Disclosure Scotland's budget allocation appears as distinct lines items in the Annual Scottish Budget Bill as part of the Children and Families Spending Plans. The Board, as an Advisory Board, therefore do not approve the budget but instead receive regular reporting from the Leadership Team on how Disclosure Scotland is performing against the budget. The Leadership Team approve the budget. As discussed further on page [21](#) this process could be enhanced by involving the Board at an earlier stage to provide scrutiny and challenge into the proposed internal budget allocations and the assumptions applied.

After receiving the allocation, Disclosure Scotland has flexibility to determine how that money is spent and is split at a high-level between staffing costs, non-staffing costs and non-cash. This is offset against the expected income to be received from fees.

Disclosure Scotland has reported an overall underspend of £4.1m (14% of budget), as summarised below:

	Approved budget (£m)	Actual (£m)	Variance (£m)
Resource expenditure	35.9	33.8	2.1
Resource income	(15.9)	(17.3)	1.6
Capital expenditure	8.3	7.9	0.4
Total	28.5	24.4	4.1

3.3 Wider scope requirements (continued)

Financial management (continued)

Current year financial performance (continued)

The key reasons for the variance in expenditure was as a result of the Scottish Government requesting Disclosure Scotland to carry out a savings review mid-year to identify potential areas where savings could be achieved. These were risk rated (Red, Amber, Green), with green (low risk) savings identified of £1.876m. Actual savings achieved exceeded this target, with final savings of £2.5m, largely within staff costs. This was achieved through close monitoring of vacancies in line with Scottish Government policies, with Directors agreeing to leave certain posts vacant to create savings. This also incorporated an agreement to defer the implementation of The Act by a year to 2025. While this has allowed savings to be achieved in the short term, it is important that the impact on Disclosure Scotland's ability to meet its objectives without these posts filled is closely monitored.

Income also ended the year ahead of budget, with overall number of applications running at 104% of forecast. This is demand led so difficult to predict to 100% accuracy, but is closely monitored throughout the year. The income was also impacted by approximately £1m of Free Social Care income where volumes continue to run above estimates.

The Leadership Team, Board and Audit and Risk Committee (ARC) regularly review progress against budget through the year, with quarterly reporting to the Board. Any variances arising during the year are clearly reported and there is a clear link between the financial information reported in the year and the Annual Report and Accounts. Improvements have been made to the reporting during the year, with reports now more focussed on the key messages to aid this scrutiny.

Finance capacity

The finance team has been enhanced during the year with the introduction of dedicated resource to support the change programme. We are therefore satisfied that Disclosure Scotland continues to have a sufficiently qualified and experienced finance team to support its financial management.

Internal controls and internal audit

Disclosure Scotland relies upon the financial systems provided by the Scottish Government, in particular the general ledger, purchase ledger and payment of invoices and payroll. A detailed Framework Agreement is in place, which was updated in 2022. As part of this, Disclosure Scotland use the services of the Scottish Government's internal audit team.

3.4 Wider scope requirements (continued)

Financial management (continued)

Internal controls and internal audit (continued)

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2022/23. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2022/23 Internal Audit Plan was approved by the ARC in February 2022 and comprised three pieces of assurance work covering capacity and capability, PMO arrangements and assurance mapping, along with one advisory piece of work. Detailed reports are provided to the Committee for each project.

Standards of conduct for prevention and detection of fraud and error

We have assessed Disclosure Scotland's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland publication "Fraud and irregularities 2021/22 – sharing risks and case studies to support the Scottish public sector in the prevention of fraud". Overall, we found the arrangements to be designed and implemented appropriately.

Deloitte view – financial management

Disclosure Scotland has made improvements to its budget setting and monitoring arrangements in place during the year, with revised monitoring reports providing greater focus on key areas. The Board's input to the budget setting process could be enhanced to provide additional scrutiny and challenge at the time the internal budget allocations are agreed.

While a significant underspend was reported at the end of the year, this was largely as a result of the need to make savings in year, at the request of the Scottish Government, and was achieved through not filling vacancies, and an agreement to defer implementation of The Act to 2025. While this has allowed savings to be achieved in the short term, it is important that the impact on Disclosure Scotland's ability to meet its objectives without these posts is closely monitored.

This finance team has expanded during the year, which is a positive step to support the financial management of the organisation. This is supported by a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

3.5 Wider scope requirements (continued)

Financial sustainability

Can short term (current and next year) financial balance be achieved?



Is there a medium and longer term plan in place?



Is the body planning effectively to continue to deliver its services or the way in which they should be delivered?



Financial Sustainability

Significant risks identified in Audit Plan

In our audit plan we highlighted that the previous auditors made a recommendation around the need to establish a reliable medium term financial plan to deliver Disclosure Scotland's objectives within available resources. At the time of our Audit Plan, this remained outstanding and therefore there continued to be a risk that robust medium-to-long term planning arrangements are not in place to manage finances sustainably and delivery services effectively.

2023/24 budget setting

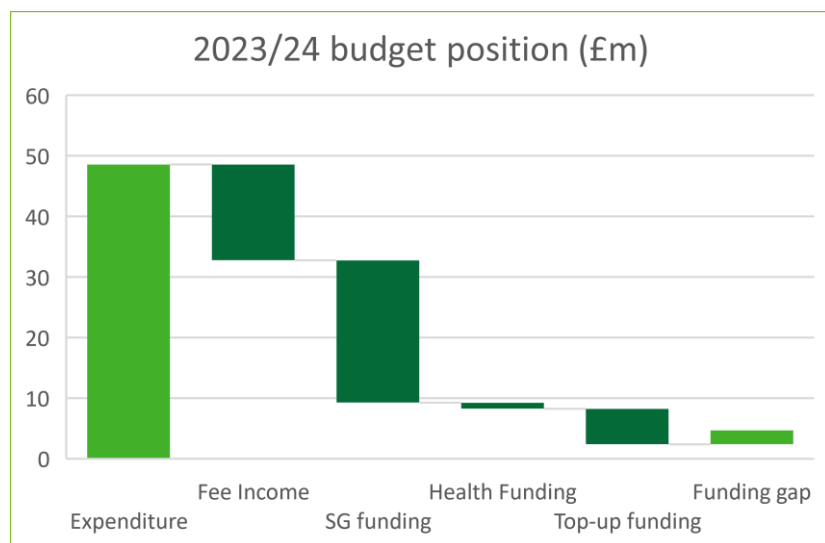
As explained on page [18](#), as an Executive Agency, the Board does not approve the budget. Based on the budget allocation in the Scottish Budget Bill which is part of the Children and Families Spending Plans, the Leadership Team worked together to identify the expected costs and income in the year and compare with the funding provided, which was then agreed in March 2023. The Board was provided with high level information on confirmed funding at its February 2023 meeting. However, the first detailed report to the ARC on the 2023/24 budget allocations was in May after approval by the Leadership Team. This process could be enhanced by involving the ARC and Board at an earlier stage to provide scrutiny and challenge into the proposed internal budget allocations and the assumptions applied.

A summary of the 2023/24 budget position is illustrated on the following page, combining both resource and capital requirements. In comparison with the initial funding confirmed via the Scottish Budget Bill, Disclosure Scotland had identified budget pressures of £9.233m (£5.394m in resources and £3.839m in capital). To offset this, £1m has been received from the Health Directorate and a further £5.9m top-up funding from the Children and Families Directorate (£3.2m in resources and £2.7m in capital) has been verbally agreed, with a funding gap of £2.333m (£1.194m in resources and £1.139m in capital) remaining. Should additional funding not be made available, Disclosure Scotland will need to identify areas of further efficiency to achieve financial balance. This continues to be reported as a cost pressure in the monthly reporting to Scottish Government, however, there are currently no plans in place to set out options as to how these efficiencies will be achieved. It is important that these are developed to ensure sufficient consideration of any potential impact on delivery, should savings required to be made.

3.6 Wider scope requirements (continued)

Financial sustainability

2023/24 budget setting (continued)



As part of the savings offered to Scottish Government, referred to on page [19](#), Disclosure Scotland agreed to make savings of £100,000 resource and £800,000 capital by delivering the Disclosure Act one year later on 1 April 2025. The impact of the cost pressures is being closely monitored but remains a key area of risk.

As part of the Spending Review, the Scottish Government expects bodies to set an annual efficiency target of 3% and also expects them to explore the scope to maximise the use of shared services across the public sector landscape. We have considered each of these elements as applicable to Disclosure Scotland as follows.

Savings targets

- As discussed on page [19](#) and opposite, Disclosure Scotland offered savings in both 2022/23 and 2023/24, including savings to deliver the Act one year later. Budget setting could be enhanced by incorporating specific savings targets to demonstrate that the annual efficiency target of 3% is being met;
- Disclosure Scotland is progressing with its Digital Transformation Programme which is expected to drive efficiencies. We have considered this further under “Medium-to-long term financial planning” on page [23](#).

Use of shared services

Disclosure Scotland currently have a number of shared service agreements in place including the Procurement, HR and finance functions with Scottish Government.

During 2022/23, Disclosure Scotland has progressed a pilot with SAAS of a shared operational delivery resources between the two organisations. A memorandum of understanding was agreed by both organisations in December 2022 following extensive consultation with staff and Trade Unions.

3.7 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning

Disclosure Scotland has updated its Finance Strategy during the year covering the period 2023-2025. The organisation is going through a period of significant organisational and digital change as it looks to implement the provisions of the Act and drive forward the DS25 Corporate Strategic vision.

The Finance Strategy recognises the following key financial challenges:

- **Funding gap** – as the fees currently charged, as set by Scottish Ministers do not cover operational expenditure, Disclosure Scotland is reliant on annual funding from the Scottish Government;
- **Wider fiscal pressures** – The Scottish Government is facing significant budgetary pressures which will impact on the availability of funding. As noted earlier, the forecast income plus agreed funding is not sufficient to cover operational expenditure in 2023/24;
- **Demand led service** – the volume of applications, and therefore income, is demand led, therefore there is little opportunity to promote products and services to increase income;
- **Ministerial commitments** – Disclosure Scotland is required to provide products free of charge to certain sectors, as set in Statute, therefore receives no direct income to cover the associated operational, illustrating the need for additional Scottish Government funding; and

Controlling costs – six essential cost categories make up 91% of operational expenditure, with two-thirds being staff related costs, making savings difficult to identify.

While the Strategy covers to period to 2025, there are no financial projections beyond 2023/24, therefore it is difficult to visualise the level of funding gap and efficiency savings required in the medium term. The finance team have prepared projections over a 10 year period to estimate the Scottish Government funding required depending on where the fee is set. This is a good starting point for developing a medium to longer term finance strategy.

Given the limited opportunities to increase income over the short to medium term, the primary focus over the period of the Strategy is to seek new and innovative ways to control and reduce operational expenditure, eliminate waste and drive efficiencies.

The Act changes the products that Disclosure Scotland offer to the public and as a result, there is an opportunity to consult on changes to fee levels beyond 2025. Ministerial approval has been received to consult with key stakeholders on revised fees. Following the consultation, proposals on revised fee structures and levels will be put to Ministers, however, the final decision is with Parliament, therefore there remains a risk that the revised fee structure does not cover all operational costs.

3.8 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

Workforce planning

A key element of the medium-to-long term planning is workforce planning given that a high proportion of Disclosure Scotland's costs relate to staff. There continues to be a reliance on agency and temporary staff, however, this is part of a conscious strategy to address resource requirements over the short term. We recognise that recruiting digital staff continues to be a challenge across the public sector. The use of agency and temporary staff has reduced from 83 FTE in 2021/22 to 71 FTE in 2022/23, although the overall costs have increased slightly from £2.474m to £2.575m.

Work is underway to design a Target Operating Model and a Strategic Workforce Plan. Beyond 2025, in view of the digital transformation the workforce is expected to look very different to how it looks now. As a result, the Finance Strategy does not go beyond 2025 until these elements are further advanced to be able to forecast with more certainty. A strategic workforce planning group was set up in 2022 to ensure the resourcing strategies are meeting the intended workforce planning outcomes. A critical piece of work for 2023 is the development of the workforce plan.

During 2022/23, internal audit did a review of capacity and capability. This included evaluating the arrangements in place for resilience in key roles and for retaining corporate knowledge. It also considered arrangements in place to develop and improve workforce planning. This provided a "reasonable assurance" rating, with three medium level recommendations.

Digital Transformation

Disclosure Scotland is in the process of implementing an ambitious programme of digital transformation, developing software and tools that are intended to improve internal process, support delivery of The Act and change the way customers interact with the organisation.

Much of the development work is being done "in-house" and requires significant capital investment with a heavy reliance on contractors to deliver the functionality. Work is also ongoing to recruit and develop permanent staff to reduce reliance on this expensive resource in the longer term.

As noted on page [19](#), Disclosure Scotland were asked by Scottish Ministers to identify areas for savings in 2022/23. As a result, a paper was prepared setting out options to delay implementation of The Act, and the associated digital transformation work, by one year to 2025. This identified savings of £1.6 million over the two years 2022/23 and 2023/24, as a result of reducing the number of specialist IT contractors needed. Advantages and disadvantages of the delay were clearly set out in the paper to Ministers and these savings were accepted.

The governance structures associated with the Digital Transformation work have changed during the year, which is considered further as part of "Vision, leadership and governance" on page [28](#).

3.9 Wider scope requirements (continued)

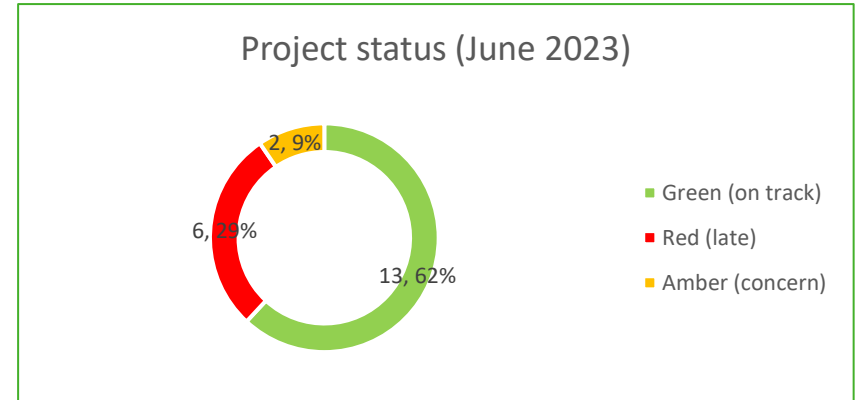
Financial sustainability

Medium-to-long term financial planning (continued)

Regular reports are provided to the Board to provide an update on the change portfolio, including the digital transformation work. This reporting has evolved during the year to ensure that the information provided is data-driven and useful to allow the Board to challenge and provide advice. Reports are now provided in the form of a dashboard.

The report presented to the Board in June 2023 included the following highlights:

- The overall status of the portfolio remains at Amber (concern noted) due to the organisational roadmap and re-baselining of business cases still being in development.
- Two programmes are reported where one is amber and the other one is green and at the project level, the following status was reported as shown in the diagram on the right.



The dashboard format provides clear information for the Board to consider, including financial highlights, project highlights and risks/issues. From review of the report to the Board in June 2023, it is clear there is significant work ongoing.

Benefits plans are in place for all projects, and a benefits register is in place which collates details including benefit themes, financial benefits, benefit summary, measurement method and baseline.

3.10 Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

The original business cases set out the expected benefits associated with these programmes and projects, however, as noted on the previous page, these are being revisited and refined to get a clearer picture of the expected benefits.

The development of a benefits realisation tool is an important aspect to allow Disclosure Scotland to monitor the success of these projects and to help inform the medium-to-longer term financial planning. This is a critical element of any transformation programme to allow Disclosure Scotland to capture all the data required to demonstrate whether the intended outcomes of each project have been achieved – both from a financial savings perspective but also to the wider improvement in outcomes.

Once the business cases are reviewed and financial impacts assessed, management should update its financial strategy to set out its expected cost over the medium term. This can be further enhanced once the fee structure is confirmed beyond 2025.

Audit Scotland's report in June 2014 [Scotland's public finances – A follow-up audit: Progress in meeting the challenges \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/scotland-s-public-finances-a-follow-up-audit-progress-in-meeting-the-challenges) includes a helpful summary of important features of a financial strategy, as summarised in the next page. While the current strategy includes some aspects of this, we would recommend that management use this as a reference for enhancing its medium-to-long term strategy.

Area	Important features of a financial strategy
Period	A financial strategy should cover 5-10 years.
Cost	A clear understanding of the business model and the cost of individual activities within it
Savings options	Evidence based options for achieving savings
Savings details	Details of one-off and recurring savings
Scenario planning	Scenario planning to outline best, worst and most likely scenarios of the financial position and the assumptions used
Assets/Liabilities and Reserves	Details of assets, liabilities and reserves and how these will change over time
Capital Investment Activity	Details of investment needs and plans and how these will be paid for
Demand	An analysis of levels of service demand and project income
Funding shortfalls	Any income or funding shortfalls and how to deal with these
Strategy links	Clear links to the corporate strategy and other relevant strategies such as workforce and asset management
Risks and timescales	The risks and timescales involved in achieving financial sustainability

3.11 Wider scope requirements (continued)

Financial sustainability

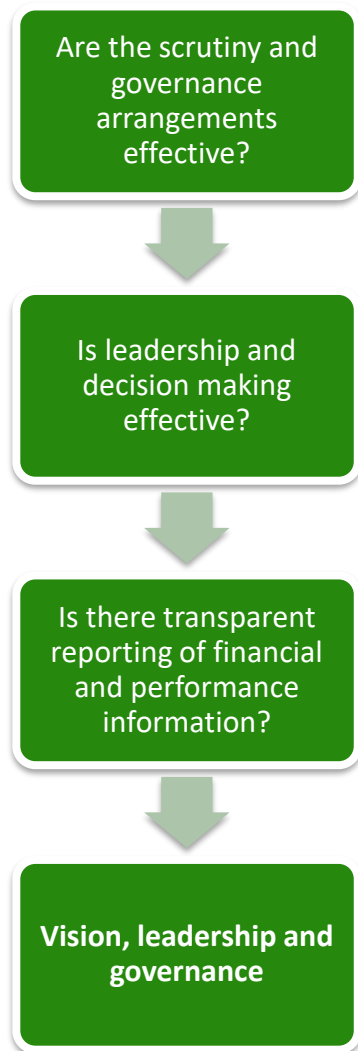
Deloitte view – Financial sustainability

Disclosure Scotland has achieved financial balance in 2022/23 and has demonstrated its ability to make savings to support the wider Scottish Government. However Disclosure Scotland's allocated budget from Scottish Government Core is below the level needed to meet all its expected commitments and expenses, which may mean Scottish Government will need to allocate additional budget cover in 2023/24. It is important that this is continually monitored and action taken as required during the year. This is being transparently reported to both the Board and the Scottish Government during the year.

The organisation is going through a period of significant organisational and digital change as it looks to implement the provisions of The Act and drive forward the DS25 Corporate Strategic vision. While a finance strategy has been prepared covering the period 2023 to 2025, and the finance team have prepared projections over a 10 year period to estimate the Scottish Government funding required depending on where the fee is set, there are currently no projections of expected funding gaps and efficiencies required beyond 2023/24. While we recognise that the Scottish Government only confirms funding on an annual basis, the finance strategy can be prepared based on assumptions around expected funding. The building blocks for this are in progress, including the updating of business cases in relation to the change programme, the consultation on future fee level under The Act and the development of a Workforce Plan and Target Operating Model. It is important that once these are progressed, the financial strategy is further developed and aligned to the corporate strategy. The delivery of the change programme is critical to the future financial sustainability of the organisation and remains a key area of risk that is being managed. We will continue to monitor the progress with this during our audit appointment.

3.12 Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

We did not identify any significant risks in relation to vision, leadership and governance during our planning work. We therefore restricted our audit work to reviewing the work of the Board and its Committees to assess whether the arrangements continue to operate effectively, including assessing whether there is effective scrutiny, challenge and informed decision making.

Vision and strategy

Disclosure Scotland's current Corporate Strategy and Plan covers the period 2021-2025. This sets out the organisations purpose and functions defined in legislation across the follow three functions:

- **Disclose** – provide disclosure certificates;
- **Protect** – manage the Protecting Vulnerable Groups (PVG) scheme; and
- **Promote** – support our customers and stakeholders to use our services.

During the course of this strategic plan, Disclosure Scotland will bring the new Disclosure (Scotland) Act into force, which will fundamentally change disclosure and protection services in Scotland as it moves to new ways of working by 2025.

The Strategy sets out “our actions”, “our aims” and “our outcomes” to demonstrate how Disclosure Scotland will deliver its objectives in the context of the Scottish Government’s National Performance Framework.

The Business Plan for 2023/24 has recently been updated. This notes that during 2023/24, Disclosure Scotland will develop a “Target Operating Model”, led by its vision and based on its customers’ experience. This operating model will allow it to plan for the future and give customers the disclosure services they need. The programme of work for 2023/24 focusses on continuous improvement and there are plans to introduce a continuous improvement team to look at other ways that the organisation can improve.

3.13 Wider scope requirements (continued)

Vision, leadership and governance

Leadership

The Leadership Team has remained relatively consistent during the year. During 2022, the Chief Executive reviewed the Leadership Team roles and responsibilities and changed the remit of the two Deputy Chief Executives to be more overarching and focus on business and digital strategy. There are also three further Directors covering Policy and Customer engagement, Corporate Services and Safeguarding.

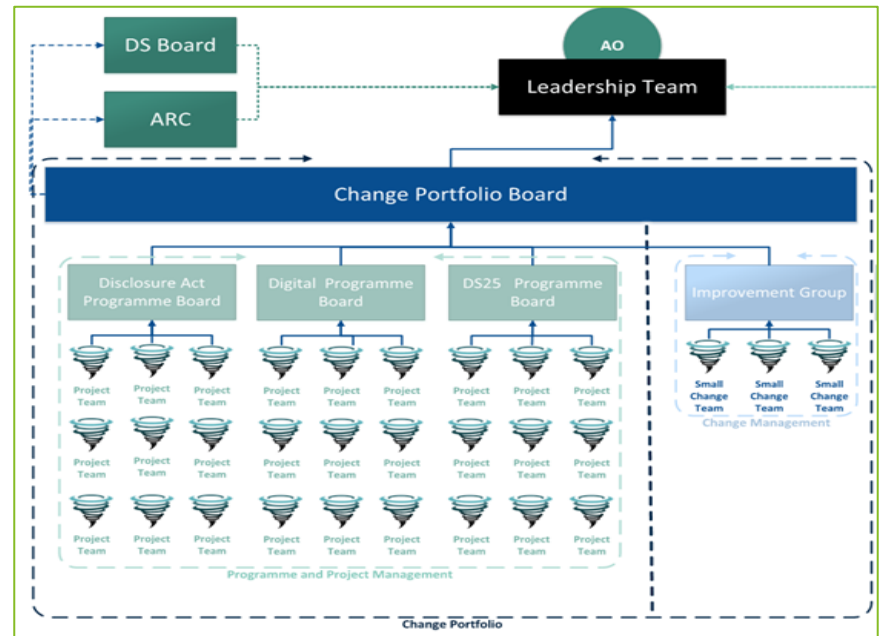
During the year, two board members resigned, therefore two interim non-executive members were appointed pending a wider recruitment campaign for permanent members later in 2023. Given the significant change programme being undertaken across the organisation, it is critical that once the new non-executive Board are confirmed, there is a clear handover, induction and training provided to ensure that there is a clear understanding of roles and responsibilities to support the Chief Executive, as Accountable Officer, providing advice, support and challenge in accordance with the Framework Agreement. Consideration should also be given to succession planning on non-executive Board members to prevent future changes having a significant impact on the organisation.

In line with good practice, the Board carries out an annual self-assessment, with the last one completed as part of the Board Away Day in July 2022. This covered areas including the structure and dynamic of the Board and the information that is provided by Disclosure Scotland staff. Areas for improvement were highlighted and have been taken forward by the Chief Executive Office.

Governance and scrutiny arrangements

The Scottish Government Framework Agreement was revised and updated in 2022. This sets out the strategic relationship and a number of shared principles between Disclosure Scotland, Scottish Ministers and the Scottish Government. It forms a key part of the governance and accountability framework within which Disclosure Scotland operates.

During 2022/23, Disclosure Scotland made changes to its governance structure to support the next part of its change programme, with the revised structure illustrated below.



3.14 Wider scope requirements (continued)

Vision, leadership and governance

Governance and scrutiny arrangements (continued)

A Change Management Team was introduced in 2021/22, including a Programme Management Office (PMO) and an assurance function. Internal Audit carried out a review of the PMO arrangements in place, reporting to the ARC in February 2023. This provided a “reasonable assurance” rating, with one medium and one low level recommendation.

The current Change Team and Advisory Panel structures established in late 2021 were disbanded and replaced with the three Programme Board’s illustrated in the graphic on the previous page. These include both internal, external and non-executive members. Advisory or working groups have been retained to support overall portfolio focused on stakeholders and technical advise.

It is important that these new structures are embedded within the culture of the organisations and given time to develop and then formally assess whether they are meeting the requirements and operating effectively.

The ARC continues to be a key element of the governance arrangements in place. In line with good practice, the Committee carries out an annual self assessment of its effectiveness, the outcome of which was reviewed by the ARC in September 2022. Key actions arising from the assessment were set out in the covering paper.

The ARC also provide oversight and scrutiny of the risk management activity. An update on the Corporate Risk Register is provided to each meeting, with an update on any movements in risk in the last quarter. During 2022/23, a number of changes have been to the Corporate Risk Register and risk reporting through the Corporate Risk Review Group and Leadership Team. These were designed to make the reporting clearer.

We have reviewed meetings attendance from the past year and confirm that there has been well attended. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

Transparency of reporting

All Board and ARC minutes are publicly available through Disclosure Scotland’s website.

The Disclosure Scotland website includes a comprehensive suite of information including links to strategies and policies and annual report and accounts, thereby demonstrating openness and transparency of decision making and performance information (which is considered further on page [31](#)).

3.15 Wider scope requirements (continued)

Vision, leadership and governance

Deloitte view – Vision, leadership and governance

Disclosure Scotland's Corporate Strategy 2021-2025 clearly sets out the organisations purpose and functions and the Business Plan 2023/24 includes the key action for the year in the development of the Target Operating Model to allow Disclosure Scotland to plan for the future, recognising the significant period of change.

The Leadership and governance arrangements have also seen a period of change, recognising the significant operational changes taking place around digital transformation and the implementation of the Act. This closely follows a previous change introduced in 2021/22. It is important that these new structures are embedded within the culture of the organisations and given time to develop and then formally assess whether they are meeting the requirements and operating effectively.

Temporary changes have been made to the non-executive members of the Board, with further changes planned later in 2023. This needs to be carefully managed given the significant change programme being undertaken across the organisation.

Disclosure Scotland continues to be open and transparent.

3.16 Wider scope requirements (continued)

Use of resources to improve outcomes



Significant risks identified in Audit Plan

In our audit plan we highlighted that, while the previous auditors concluded that appropriate performance management processes were in place to achieve value for money, Disclosure Scotland may have more processing capacity than is required to meet targets and has a reliance on agency staff to deliver capital projects. There is therefore a risk that Disclosure Scotland is not directing resources to improve outcomes.

Performance management framework

Disclosure Scotland had historically monitored its performance in accordance with its strategic themes set out within its Corporate Strategy – “Disclose, Protect and Promote” – and also according to enabling objectives where appropriate, “our people, our systems and the way we work”. This allows it to align its performance to its six strategic objectives. Regular reports are provided to the Board on performance and from April 2023, the format of these reports have changed to a performance scorecard to the Board to provide:

- Data to assurance key functions are performant;
- Exceptions narrative for in depth discussion where key functions are performing below target; and
- Proposed actions and recommendations where focus on non-performant areas plan to improve.

The updated Business Plan for 2023/24 has a revised set of Key Performance Indicators against each strategic theme, with a focus on continuous improvement.

One of the strategic objectives is “we use our influence and expertise beyond our organisational boundaries to integrate disclosure with wider initiatives in the service of Scotland, supporting the Scottish Government to deliver its National Outcomes”.

As highlighted in his blog “Christie 10-years on” [Blog: Christie 10-years on | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/blog/christie-10-years-on), the Auditor General for Scotland noted that Christie challenged us to make a shift towards prevention and deliver improved long term outcomes for individuals and communities. But we still measure the success of public services by short term, service specific measures. Public bodies need to rethink radically how we measure success and hold organisations to account for their performance.

3.17 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance management framework (continued)

The KPIs set out within the Business Plan are largely output focussed, rather than outcome focussed. This is understandable given the work that Disclosure Scotland carries out and how it works with other bodies to help Scottish Government to deliver its national outcomes. Consideration should be given to if there are other areas where there are specific outcomes that can be monitored and reported to demonstrate that continuous improvement.

Performance data

A summary of the performance reported to the Board during the year, as at March 2023 (reported to the Board in June 2023), is provided below.

As noted by the previous auditors, Disclosure Scotland continues to perform well, exceeding processing targets. While this is positive, there is the potential that there is overspending being incurred with over staffing impacting on value for money. As part of The Act readiness work, Disclosure Scotland are consulting with customers and considering resourcing needs to set the right timescales for the new products according to the balance of customer needs and value for money.

Theme	Summary of performance 2022/23	Action taken on planned
Disclose	Targets exceeded for the percentage of Disclosure certificates issued within 14 calendar days, percentage of Customer Contact Centre calls answered, percentage of correspondence actioned within 5 working days and average call handling time.	<p>Resources being managed carefully. Call volumes are significantly lower than previous years, therefore e-mail enquiries resourced to a higher level as receive significantly more.</p> <p>Aim to promote and guide customers to online services and correspondence send via e-mail to reduce volume of calls.</p> <p>Call tagging helps to identify trends.</p>



Strong performance









Performance slightly below target

3.18 Wider scope requirements (continued)

Use of resources to improve outcomes

Performance data (continued)

Theme	Summary of performance 2022/23	Action taken on planned
Protect	Ongoing monitoring of PVG members processed within target dates and stage 2 notification of decision to list an individual to ensure that unsuitable people are swiftly removed from the workforce.	 Revised KPIs for 2023/24, with two indicators within “Protect” reported as green and one as red in relation to the percentage of notifications of barring decisions issued within 3 working days. A special exercise was carried out in April to tackle barring decisions and the National Barring Service noted that volumes were significantly higher than normal
Promote	55.1% increase of social media followers, 76% increase of stakeholder reach (against target of 33%) and the percentage of complaints resolved at Stage 1 within 5 days ahead of target	 All reportable items within tolerance
Digital	Percentage of customer service availability and business service availability above target	 All reportable items within tolerance
People	Staff engagement index, average working days lost and staff attrition all within t	 All reportable items within tolerance
Finance	Percentage of invoices paid within 10 days and percentage of debt older than 60 days within target	 All reportable items within tolerance
Governance and Data Protection	The percentage of adherence to legislative timescales for Subject Access Requests and Freedom of Information and reportable data breaches within target	 All reportable items within tolerance

3.19 Wider scope requirements (continued)

Use of resources to improve outcomes

Deloitte view –Use of resources to improve outcomes

Disclosure Scotland has a clear performance management framework which has recently been updated with clear performance scorecards to monitor performance. The updated Business Plan for 2023/24 has clear KPIs with a focus on continuous improvement. Regular reporting on performance is provided to the Board. One of the strategic objectives relates to supporting the Scottish Government to deliver its National Outcomes. Consideration should be given to if there are other areas where there are specific outcomes that can be monitored and reported to demonstrate that continuous improvement.

Disclosure Scotland has continued to perform well during 2022/23, actively managing its performance and taking appropriate action, including re-allocation of resources, in response to the data collected. As part of The Act readiness work, Disclosure Scotland are consulting with customers and considering resourcing needs to set the right timescales for the new products according to the balance of customer needs and value for money.

3.20 Wider scope requirements (continued)

Best value

Requirements

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we have considered whether there are organisational arrangements in place in this regard.

The duty of BV in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.
- BV characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:
 - Vision and Leadership
 - Governance and Accountability
 - Use of resources
 - Partnership and collaborative working
 - Working with Communities
 - Sustainability
 - Fairness and equality

Conclusions

Disclosure Scotland has a number of arrangements in place to secure best value. As noted elsewhere within this report, the Corporate Strategy provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, fairness and equality and a focus on continuous improvement. The leadership team and governance arrangements has seen a further period of change during 2022/23. It is important that these new structures are embedded within the culture of the organisations and given time to develop and then formally assess whether they are meeting the requirements and operating effectively.

Disclosure Scotland is implementing an extensive Digital Transformation programme, linked closely to the implementation of The Act. This continues to be a key area of focus for management and the Board.

Deloitte view – Best Value

Disclosure Scotland has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. The delivery of the significant digital transformational programme remains a key risk.

3.21 Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	Disclosure Scotland position
1. What targets has the body set for reducing emission in its own organisation or in Its local area?	<p>No specific targets have been set for Disclosure Scotland to reduce emissions other than the overall targets set out within the Climate Change (Scotland) Act 2009. The Leadership Team have identified 5 key priorities in relation to Climate Change which are being taken forward, as follows:</p> <ol style="list-style-type: none">1. Using existing staff networks to develop a specific climate action plan and agree a senior Sponsor for the work.2. Energy walk arounds carried out in 2022 to feed into Climate Change Action Plan along with most recent EPC survey action plan.3. Set strong and measurable climate change outcomes in new Procurement Strategy.4. Consider implementation of specific waste reduction measures and EV car chargers (which are now in place)5. Make link to key sustainability measures and improvements through the Hybrid Working Framework

3.22 Wider scope requirements (continued)

Climate change

Question	Disclosure Scotland position
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	<p>Disclosure Scotland does not have a climate change strategy or action plan setting out how it intends to achieve its targets, in line with the Scottish Government targets. There is also no reference within the Corporate Plan or Business Plan. A new Health, Safety and Facilities manager is now in place. A key remit of their role will be to take forward the climate agenda, working towards net zero. As part of this, we recommend that a climate change strategy and action plan be developed.</p> <p>While there is no dedicated strategy or action plan in place, Disclosure Scotland is actively taking forward a number of initiatives, with events held with staff during Climate Week and discussions at a strategic level on what the organisation can do including energy walk arounds, promoting cycle to work and increased internal communications to webinars and online training.</p>
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly? (continued)	<p>A section is included within the Annual Report Accounts – Sustainability report – reports on the impact of activities, using 2013/14 as a baseline year. This includes reporting on greenhouse gas emissions, use of resources and their related expenditures, waste minimisation and management and sustainable procurement.</p> <p>Disclosure Scotland also monitor and report on carbon emissions to the Scottish Government, with data published on the Sustainable Scotland Network website.</p>
4. Has the body considered the impact of climate change on its financial statements?	<p>No specific consideration has been given to the impact of climate change on the financial statements. Given the type of public sector organisation, based in a shared office space, the expected impact on the financial statements is minimal.</p>

3.23 Wider scope requirements (continued)

Climate change

Question	Disclosure Scotland position
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	As above, given the type of public sector organisation, the expected impact on the financial statements is minimal. Areas that are being considered around energy use, water consumption and waste disposal are likely to have an impact on the ongoing annual costs recognised in the financial statements.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	Disclosure Scotland has included a section on “sustainability report” within the Annual Report and Accounts setting out its achievements to date, in particular around the use of the shared building with other Scottish Government bodies.

Deloitte view – Climate change

As a public sector body with a shared office space, and as a consequence relatively low carbon emissions, the opportunities for emissions reductions are limited. There is currently no reference to how Disclosure Scotland plan to contribute to the Scottish Government targets within the Corporate Plan or Business Plan, and there is no Climate Change Strategy or Action Plan in place. We recognise that a new Health, Safety and Facilities Manager is now in place, and therefore recommend that a Strategy or Action Plan is developed to set out how the organisation plans to contribute to the targets. The Annual Report and Accounts include a section on its achievements to date.

3.24 Wider scope requirements (continued)

Cyber risk

Area	Management actions	Impact on DS's Annual Report and Accounts	Impact on our audit
Cyber risk	<p>DS recognise cyber risk as part of its corporate risk register which is monitored by the Audit and Risk Committee. In 2022 the Board attended an away day covering sessions on cyber security. This included cyber threats facing DS and responses to those threats.</p> <p>In 2022/23, Internal Audit carried out a follow-up review on the 2021/22 Cyber Security report. The recommendation arising from this report was found to be partially implemented with a revised implementation date of Q3 2023/34.</p> <p>Cyber security continues to be a high priority for DS, particularly in view of the Digital transformation work.</p> <p>In line with Audit Scotland's recommendation, DS has applied the lessons learned from the SEPA cyber attack.</p>	<p>Reference to the IT infrastructure changes made in 2022/23 has been included in the "key challenges" section of the Annual Report. Reference to achieving Cyber Essentials accreditation also disclosed.</p>	<p>We have obtained an understanding the business and its internal controls in relation to cyber including assessing the maturity and coverage of the entity's cyber risk management programme. Internal Audit's December 2022 Cyber Security follow-up report to the Audit and Risk Committee has informed this work.</p> <p>We obtained an understanding of the relevant laws and regulations in relation to the entity.</p>

4.1 Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit and Risk Committee and DS discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for DS, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to DS.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Glasgow | 8 August 2023

Appendices



5.1 Action Plan

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. Evidence of management review of journal entries</p> <p>Whilst our controls work found that there was a review element to the approval of journal entries, evidence of this is a name and date sign off typed into the journal workings. It is recommended that confirmation of the review and approval is created, such as an e-mail thread to confirm review and approval and a proper sign off indicating appropriate review has been performed. We have alternatively satisfied ourselves base on observation and inspection of communication by the finance and management team that review is done.</p>	<p>Although we are satisfied that there were no issues with the journal review process during the year, to enhance our financial controls we have introduced from late July 2023 the email approval sign off as suggested.</p>	Low	Director of Corporate Services	Completed July 2023
<p>2. Financial Management</p> <p>The internal budget allocations developed and approved by the Leadership Team should be scrutinised by the ARC and/ or Board in advance of the start of the financial year to assess the budget allocations and assumptions applied.</p>	<p>The budget in 2023/24 was taken to Board (June 23) and Audit and Risk Committee (May 23) which was the first possible meeting after Leadership Team scrutinised and approved the budget in March 23. We will look at our calendar of business going forward so that the Board can have earlier sight of budgets.</p>	Medium	Director of Corporate Services	March 2024

5.2 Action plan (continued)

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>3. Financial Sustainability</p> <p>Where funding gaps are identified at the time of approving the budget allocations, efficiency savings options should be developed and considered to ensure that there are sufficient consideration of the potential impact on the wider delivery of objectives. This should incorporate how Disclosure Scotland is actively working towards the Scottish Government 3% efficiency target.</p>	<p>As part our budget setting and review process we will make explicitly clear as part of our reports seeking advice from Leadership Team and Board the context in which we are operating and how it aligns with the Scottish Government target. When budgets are set the Directors should consider with assistance from Finance what savings could be made.</p>	Low	Director of Corporate Services	March 2024
<p>4. Financial sustainability</p> <p>In developing and updating its medium term financial strategy, Disclosure Scotland should consider the important features of a financial strategy, as set out in Audit Scotland’s report in June 2014 Scotland's public finances – A follow-up audit: Progress in meeting the challenges (audit-scotland.gov.uk).</p>	<p>We do have a medium term financial strategy. As part of our review process which is planned for April 2025 we will consider these points.</p>	Medium	Director of Corporate Services	April 2025

5.3 Action plan (continued)

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>5. Use of resources to improve outcomes</p> <p>Disclosure Scotland should consider enhancing its performance reporting to explain what the KPIs mean in terms of outcomes. One of the strategic objectives is “we use our influence and expertise beyond our organisational boundaries to integrate disclosure with wider initiatives in the service of Scotland, supporting the Scottish Government to deliver its National Outcomes”. Reporting could be enhanced to demonstrate how the work being done is impacting on these outcomes.</p>	<p>This is a new reporting process and we have work time scheduled with Internal Audit to further review and find improvement, these suggestions will be included.</p>	Low	Director of Corporate Services	March 2024
<p>6. Climate change</p> <p>A Climate Change Strategy or Action Plan should be developed to set out how the organisation plans to contribute to the Scottish Government targets.</p>	<p>Disclosure Scotland will seek to review its approach to climate change and consider the development of a strategy or action plan. This will take into account best practice and Scottish Government guidance.</p>	Low	Director of Corporate Services	March 2024

5.4 Action plan (continued)

We have followed up the recommendations made in by the previous auditors. We are pleased to note that three recommendations have been partially implemented and two are not yet due. Two further recommendations carried forward from 2020/21 have been fully implemented, and have been closed and agreed by the ARC.

Recommendation	Management Response	Rating	Management update 2022/23
<p>1. Accuracy of Financial Planning</p> <p>We recommend that sensitivity analysis is carried out when preparing financial forecasting to prepare for a variety of scenarios and potential changes to costs. The information in the medium term financial planning should be also aligned with the DS 25 strategy.</p>	<p>The Resource DEL (RDEL) (cash) underspend was mainly attributable to income being higher than predicted when the budget was set. This was the result of an economic downturn factor of 5% being built into the income projections which did not materialise. This was influenced by the demand which had occurred in lockdown in the previous year.</p> <p>As DS has many fixed costs its budget requirement is very dependent on its income. When setting the projected income we model in various factors which affect the overall projected income being the level of free checks for Voluntary Organisations, the level of free checks for COVID-19 and the economic downturn resulting from COVID-19. The main factor for establishing the 2022-23 was the economic downturn which was modelled at various levels to predict the overall income. The factor was finally reduced to 0.8%.</p> <p>As our volume of applications is and has always been demand led, DS has always monitored the volumes of applications received on a weekly basis. The Volumes group which looks at application demand and business intel meets monthly and looks at revised forecasts prepared by DS's statisticians.</p>	Other	Financial strategy updated deficiency and considered on page 23 .
(cont.)			Partially implemented – see updated recommendation on page 44 .

5.5 Action plan (continued)

Recommendation	Management Response	Rating	Management update 2022/23
1. Accuracy of Financial Planning (cont.)	<p>(cont.)</p> <p>Future Cost models have already been prepared as part of the fee project.</p> <p>As part of our drive for continuous improvement DS appointed a new Principal Finance Manager (Strategy) in April 2022 with specific responsibility for developing a revised Medium and Long term Financial Strategy for Disclosure Scotland. Key themes will include minimising expenditure through efficiencies and maximising value for money wherever possible, with the drive towards longer term sustainability.</p> <p>Maximising income within the parameters set by Ministers will also be central to the Long Term Financial Strategy. Work on the Financial Strategy is underway and will be published in due course. This will be designed to align with, and support, the wider DS25 Corporate Strategy.</p> <p>The RDEL Capital underspend had nothing to do with the Income and Expenditure of DS but with the availability of IT consultants.</p> <p>Responsible Person: Director for Policy, Communications, Stakeholder Engagement and Finance</p> <p>Target Date: March 2023</p>		

5.6 Action plan (continued)

Recommendation	Management Response	Rating	Management update 2022/23
<p>2. Future Delivery Model</p> <p>To aide financial planning, Disclosure Scotland should consult the impact of the fee structure on the future model of delivery with the Scottish Government and reflect the results in its medium and long term financial plans.</p>	<p>The work required to deliver the Disclosure Act was prioritised from the outset. A review of the fee structure is not a requirement of Act delivery, and therefore was scheduled appropriately within the overall programme of work required. In line with those expectations and the OBC provided, a project to review the fee structure was started in quarter 4 2021/22. Significant progress has been made within the planned timescales and a paper is currently in development that sets out potential long term financial impacts of 6 different fee options, these impacts will also be discussed with our SG financial business partners. DS and the Scottish Government will not determine what changes, if any, will be made to the current fee structure. Ultimately any changes to the fee levels and structures operated by DS is at the discretion of Ministers and the Scottish Parliament.</p> <p>The outcome of this project will feed into the Long Term Financial Strategy as will the outcomes of the Operating Model and Workforce Planning discussions as part of the People Strategy.</p> <p>Responsible Person: Director for Policy, Communications, Stakeholder Engagement and Finance</p> <p>Target Date: Dependent on Ministerial timetable</p>	Other observation	<p>Progress with fee structure considered on page 26.</p> <p>Partially implemented – see updated recommendation on page 44.</p>

5.7 Action plan (continued)

Recommendation	Management Response	Rating	Management update 2022/23
<p>3. Workforce Plan</p> <p>Whilst it has been noted that work is going to develop this, we would recommend that taken forward and a detailed workforce plan is established.</p>	<p>A key theme of our planned People Strategy and output from our new Strategic Workforce Planning Group will be the development of Workforce Plans. We will be using a recognised six step workforce planning toolkit. This will help us analyse current workforce composition, determine future demand and support, identify the environmental factors and carry out a gap analysis between present and future.</p> <p>Responsible Person: Director of Chief Executive Office</p> <p>Target Date: March 2023</p>	<p>Other observation</p>	<p>Progress with workforce planning considered on page 24.</p> <p>Partially implemented</p> <p>Revised target date: November 2023</p>

5.8 Action plan (continued)

Recommendation	Management Response	Rating	Management update 2022/23
<p>4. Efficiency Opportunities</p> <p>We would recommend that work is carried out to understand the total volume of applications that could be processed while still meeting KPI processing targets in order to fully understand processing capacity and potential efficiency opportunities.</p>	<p>With the implementation of the Disclosure Act the current 4 levels and 2 products will move to 2 levels and 4 products.</p> <p>Therefore as part of the Act readiness work Disclosure Scotland will consult with customers and consider resourcing needs to set the right timescale targets for the new products according to the balance of customer needs and value for money. In preparation we are reviewing current processing performance and targets. The target date is 2024.</p> <p>Responsible Person: Deputy Chief Executive, Operations and Strategic Change Implementation</p> <p>Target Date: 2024</p>	<p>Other observation</p>	<p>Management has been monitoring volumes, staffing levels and performance now for 2022-23. DS continue to perform well, and due to the demand led nature of its work it has identified that the current budgeted resource levels will lead to running at SLA during peak times, and performing better during quieter periods. This allows DS to re allocate resource into essential training and cross skilling to support workforce and resource planning.</p> <p>This is an agile process and DS has 2 key tools to allow it to monitor both across a long period of time to identify trends and also for the purposes of daily processing queue allocations.</p> <p>Not yet due – management recommended for closure</p>

5.9 Action plan (continued)

Recommendation	Management Response	Rating	Management update 2022/23
<p>5. Capital Delivery Model</p> <p>We would recommend that the current model of delivery of the capital project is assessed.</p>	<p>Consideration of other delivery models – such as outsourcing – has taken place. A process will be carried out to pull together written evidence of this work.</p> <p>Other delivery models are still actively being explored with the aim of reducing both overall cost and risk.</p> <p>The scarcity of specialist technical resource in Scotland and the wider UK means that the cost of large, highly complex Digital programmes such as that being carried out by Disclosure Scotland will be high.</p> <p>However, it should be noted that over the past year, Disclosure Scotland has managed to drive down the average daily rate paid to contractors while increasing the pace of delivery.</p> <p>Responsible Person: Deputy Chief Executive - Digital</p> <p>Target Date: December 2023</p>	Other observation	Not yet due

6.1 Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked DS to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked DS to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in revenue recognition, operating within expenditure resource limits, and management override of controls as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed papers prepared by management for the Audit and Risk Committee on the process for identifying, evaluating and managing the system of internal financial control.

We will explain in our audit report (for all entities subject to audit) how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No issues or concerns have been identified in relation to fraud.

7.1 Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of DS and our objectivity is not compromised.

Fees The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	46,240
Audit Scotland fixed charges:	
• Pooled costs	3,070
• Audit support costs	1,630
• Sectoral cap adjustment	(9,040)
Total expected fee	41,900

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and DS's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships We have no other relationships with DS, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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