



Disclosure Scotland

2020/21 Annual Audit Report to the Accountable Officer and the Auditor General for Scotland

September 2021



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Key messages

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This report concludes our audit of the Disclosure Scotland for 2020/21.

This section summarises the key findings and conclusions from our audit.

Financial statements audit

<p>Audit opinion</p>	<p>We do not propose any modifications to our audit opinion which is unqualified.</p> <p>We have no matters to report regarding the adoption of the going concern basis or inadequate disclosures relating to material uncertainties.</p> <p>Our audit work is substantially complete and there are currently no matters which would require modification of our audit report.</p>
<p>Key findings on audit risks and other matters</p>	<p>We have reported our audit findings on pages 11-23. We have not identified any audit adjustments.</p> <p>We are pleased to report that the audit progressed well from our perspective and in accordance with the agreed timetable. The accounts and working papers presented for audit were of a good standard.</p>
<p>Audit adjustments</p>	<p>We are required to communicate all potential adjustments, other than those considered to be clearly trivial, to management and to request that management corrects them.</p> <p>Any presentational and reclassification adjustments were proposed and accepted by management.</p> <p>There have been no adjusted or unadjusted audit differences identified during the audit.</p>
<p>Accounting systems and internal controls</p>	<p>We have applied our risk-based methodology to your audit. This approach requires us to document, evaluate and assess your business processes and internal controls relating to the financial reporting process.</p> <p>Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we have included these in this report.</p> <p>No significant weaknesses in internal control were identified. Our audit did, however, identify two lower risk areas for improvement in internal controls:</p> <ul style="list-style-type: none"> • the journals approval evidencing process should be improved; and • undercharging for Protecting Vulnerable Groups (PVG) checks in the year was facilitated by lack of proper controls around the price set up process. <p>Both issues were addressed by management and are further explained on pages 33 and 34.</p>

Wider scope audit

Auditor judgement



A medium-term Strategic Finance plan for next three years is in place, however due to the impact of the pandemic, it has not been updated during this financial year to reflect the impact of the current economic environment.



Financial Sustainability

Disclosure Scotland (the Agency) has historically been a net contributor of funds to the Scottish Government. Since 2018 and following the repatriation of English and Welsh basic disclosures income the Agency has required budget input from the SG due to the loss of economies of scale. The impact of the pandemic has resulted in a pause in charging for disclosure checks and a reduction in economic activity has reduced the volume of applications. These circumstances have required the Agency to apply for funding through the Budget Act in year.

A bid for additional capital funding has also been submitted to the Scottish Government for the development and upgrading of key IT systems required to deliver the requirements of the Disclosure (Scotland) Act. The funding bid is very high level and Disclosure Scotland should develop a more detailed and costed delivery plan.

Auditor judgement



Disclosure Scotland have generally effective arrangements in place for financial management and the use of resources. The Agency managed the impact of the COVID-free applications introduced by the Scottish Government in the year.



Financial Management

System of internal control operate effectively, with further improvements made in year in to improve the internal control environment.

In this context, we note that a weakness in the approval process for updating charging rates led to undercharging of £0.5 million for PVG checks during the year. The majority of these undercharges have now been recovered, however, the Agency has had to redirect significant resource to resolve the issue.

Auditor judgement



Governance arrangements at Disclosure Scotland were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic.

Agile governance structures and robust frameworks have been developed and revised during the COVID pandemic response.

The Agency managed effectively introduction of the Management of Offenders (Scotland) Act and is preparing for the Disclosure (Scotland) Act implementation.

Disclosure Scotland has appropriate risk management arrangements in place.

Auditor judgement



The Board has appropriate performance management processes in place that support the achievement of value for money. Application processing performance declined to 78.9% below the required target of 90% applications processed within 14 days which was due to the impact of remote working and COVID-free applications prioritisation. Disclosure Scotland prepared 'lessons learned' analysis reports for the Board and undertook a number of initiatives to improve performance.

The PASS system contributes to operational efficiency, but it still required manual workarounds costing the Agency £2.9 million during the year. Addressing the workarounds remains a priority and Disclosure Scotland estimates a decrease of this cost to £1.1 million during 2021/22.

The PASS system was operational throughout the year, but in the second half of the year the system required significant IT staff time to be diverted to fix PASS performance issues which in turn impacted adversely on other ongoing critical software developments.

There have been a number of successful digital projects implemented during the year, including PVG online, credit card payments support for certain products and implementation of functionality for the Management of Offenders Act. The management of IT investments projects essential for the effective implementation of new responsibilities under the Disclosure (Scotland) Act 2020 remains a key challenge and priority for the organisation.

Definition

Our wider scope audit involves consideration of the Disclosure Scotland's arrangements as they relate to financial sustainability; financial management, governance and transparency and value for money. We have used the following grading to provide an overall assessment of the arrangements in place as they relate to the four dimensions.



Introduction



We carried out our audit in accordance with Audit Scotland's Code of Audit Practice and maintained auditor independence.



Scope

1. We outlined the scope of our audit in our External Audit Plan, which we presented to the Audit and Risk Committee at the outset of our audit. The core elements of our work include:
 - an audit of the 2020/21 annual report and accounts and related matters;
 - consideration of the wider dimensions of public audit work, as set out in Exhibit 1; and
 - any other work requested by Audit Scotland.

Exhibit 1: Audit dimensions within the Code of Audit Practice



Responsibilities

2. Disclosure Scotland is responsible for preparing an annual report and accounts which show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.
3. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.
4. We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

5. International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
6. We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent and our objectivity has not been compromised in any way.
7. We set out in Appendix 1 our assessment and confirmation of independence.

Openness and transparency

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

Adding value through the audit

8. 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

9. 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.

Financial statements audit

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

Overall conclusion

11. The annual report and accounts were approved by the Audit and Risk Committee (ARC) on 18 August. The Accountable Officer approved the accounts on the same date.
12. Our independent auditor's report is unqualified.

Timescales/Administrative processes

13. In Scotland, the administrative deadline for the submission of audited accounts of central government bodies

to Audit Scotland was changed to 30 September 2021. The legislative deadline for laying accounts in the Scottish Parliament remains at 31 December 2021.

14. We worked closely with management throughout the audit to put us in the best position to adhere to this timetable.
15. Our thanks go to staff at Disclosure Scotland for their assistance with our work, particularly given the current environment we are working in.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing as required by the Code of Audit Practice.</p> <p>Our findings / conclusion to inform our opinion are set out in this section of our annual report.</p>	<p>We have issued an unqualified audit opinion.</p>
Going concern basis of accounting	<p>In the public sector, when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of the services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue or privatise the Disclosure Scotland functions.</p> <p>Our wider scope audit work considers the financial</p>	<p>Our understanding of the legislative framework and activities undertaken provides us with sufficient assurance that Disclosure Scotland will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>

Opinion	Basis for opinion	Conclusions
	sustainability of Disclosure Scotland.	
Regularity	We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.	<p>We did not identify any instances of irregular activity.</p> <p>In our opinion, in all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.</p>
<p>Matters prescribed by the Auditor General for Scotland:</p> <ul style="list-style-type: none"> • Remuneration and Staff Report • Performance Report • Governance Statement 	<p>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.</p> <p>We plan and perform audit procedures to gain assurance that the statutory other information has been prepared in accordance with directions from Scottish Ministers.</p>	<p>The annual report contains no material misstatements or inconsistencies with the financial statements.</p> <p>We have concluded that:</p> <ul style="list-style-type: none"> • the audited part of the Remuneration and Staff Report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; • the information given in the Performance Report and in the Governance Statement has been prepared in accordance with Public Finance and Accountability (Scotland) Act 2000 and directions from Scottish Ministers, and is consistent with the financial statements.
Matters reported by exception	We are required to report on whether:	We have no matters to report.

Opinion	Basis for opinion	Conclusions
	<ul style="list-style-type: none"> adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit. 	

An overview of the scope of our audit

- The scope of our audit was detailed in our External Audit Plan, which was presented to the Audit and Risk Committee in May 2021. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to Disclosure Scotland. This ensures that our audit focuses on the areas of highest risk. Planning is a continuous process and our audit plan is subject to review during the course of the audit to take account of developments that arise.
- At the planning stage we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.
- In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the

significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas

- Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.
- The significant risk areas described in the table below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team. Our audit procedures relating to these matters were designed in the context of our audit of the annual report and accounts as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the annual report and accounts is not modified with respect to any of the risks described below.

Significant risk areas

1. Management override

Significant risk description 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*.

Risk assessment: High

How the scope of our audit responded to the significant risk **Key judgement** There is the potential for management to use their judgement to influence the financial statements as well as the potential to override the Disclosure Scotland's controls for specific transactions.

Audit procedures

- Review of the Disclosure Scotland's accounting records and audit testing on transactions.
- Adoption of data analytics techniques in carrying out testing.
- Review of judgements and assumptions made in determining accounting estimates as set out in the financial statements to determine whether they are indicative of potential bias. This included a retrospective review of the prior year estimates against the current year estimates.

Key observations We have not identified any indication of management override in the year. We did not identify any areas of bias in key judgements made by management and judgements were consistent with prior years.

2. Revenue recognition

Significant risk description 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.

Risk assessment: High

Significant risk areas

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and prepayments around the year end.

Audit procedures

- Evaluate each material revenue stream and review controls over revenue accounting.
- Substantive testing on all material revenue streams.
- Audit testing over the revenue recognition policy to ensure it is appropriate and applied consistently throughout the year.

Key observations

At the planning stage of our audit we concluded that the revenue recognition risk was present in all revenue streams except for the Disclosure Scotland's funding from Scottish Government. Our conclusion remained the same throughout the audit.

Based on audit work performed, we have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that income is fairly stated in the financial statements.

To inform our conclusion we evaluated Disclosure Scotland's key revenue streams and reviewed the controls in place over revenue accounting. We also carried out testing to confirm that the revenue recognition policy is appropriate and that it was applied consistently throughout the year.

3. Expenditure recognition

Significant risk description

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.

Risk assessment: High

How the scope of our audit responded to the significant risk

Key judgements

Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals around the year end.

Audit procedures

Significant risk areas

- Evaluate the significant non-pay expenditure streams and review the controls in place over accounting for expenditure. (Payroll is subject to separate tailored testing).
- Consideration of the Disclosure Scotland's key areas of expenditure and obtain evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been applied consistently across the year.
- Review of accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.

Key observations

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

Other risk factors

Other impacts of COVID-19 on the annual accounts

21. COVID-19 continues to present unprecedented challenges to the operation, financial management and

governance of organisations, including public sector bodies. In response to the pandemic, we identified potential areas of increased risk of material misstatement to the financial statements and/or our audit opinion. Our conclusions are set out in the table below.

Area considered	Description	Conclusion
<p>Content of the annual report and accounts</p>	<p>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.</p> <ul style="list-style-type: none"> • 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. • 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. 	<p>Disclosure Scotland took the decision to include the performance analysis section of the Performance Report and make the full disclosures in the Accountability Report.</p>
<p>Access to audit evidence</p>	<p>Our audit this year has been carried out remotely. As a consequence, we identified a risk that access to and provision of sufficient, appropriate audit evidence in support of our audit opinion may be impacted by the inherent nature of carrying out our audit remotely.</p>	<p>We have employed a greater use of technology to examine evidence, but only where we have assessed both the sufficiency and appropriateness of the audit evidence produced.</p> <p>We stayed in close contact with Disclosure Scotland finance colleagues right up until the point of accounts signing, to ensure all relevant issues were satisfactorily addressed.</p>

Area considered	Description	Conclusion
Timescales / administrative processes	<p>In Scotland, the administrative deadline for the submission of audited accounts of central government bodies to Audit Scotland was changed to 30 September 2021.</p> <p>The legislative deadline for laying accounts in the Scottish Parliament remains at 31 December 2021.</p>	<p>We expect that we will submit the audited accounts to Audit Scotland in accordance with the timetable and by 30 September 2021.</p>

Estimates and judgements

- 22. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
- 23. 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 revisited our assessment during the fieldwork and completion stages of our audit and concluded that our assessment remained appropriate.

Materiality

- 24. 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 and is affected by our assessment of the risk profile of the organisation and the needs of users. We review our assessment of materiality throughout the audit.
- 25. Whilst our audit procedures are designed to identify misstatements

which are material to our audit opinion, we also report to the ARC and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

- 26. Our initial assessment of materiality for the financial statements was £0.660 million and based on 2019/20 audited accounts. On receipt of the 2020/21 unaudited accounts, we reassessed materiality and updated it to £0.565 million, based on the actual expenditure therein.

27. The revised materiality is detailed in the table below. We consider that our reassessment has remained appropriate throughout our audit.

Materiality

Overall materiality

£565,000



Performance materiality

£423,750



Trivial threshold

£28,250



Materiality	Our materiality was assessed based on approximately 1.8% of Disclosure Scotland’s gross expenditure as disclosed in the unaudited accounts which is considered one of the principal considerations for users of the financial statements when assessing financial performance.
Performance materiality	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 groups of transactions, and balances that exceed our performance materiality. This means that we

	<p>perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p> <p>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.</p>
<p>Trivial misstatements</p>	<p>Clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Audit differences

28. We identified no material adjustments to the unaudited annual accounts. We identified some disclosure and presentational adjustments during our audit, which have been reflected in the final set of accounts. There were no unadjusted differences to the unaudited annual accounts.

Internal controls

29. As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the ARC. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

30. We have two instances of control weaknesses to report:

- our audit of journals identified that the evidencing of approval process during the pandemic was more informal for some types of the journals. Management addressed this point immediately when raised, see page 33; and
- Disclosure Scotland identified that a member of staff inputted an incorrect charge for PVG checks. This resulted in an undercharge of £0.5million before the error was identified and corrected. The error was facilitated by the lack of appropriate supervisory controls relevant to updates to the charging system. Management have now put appropriate control arrangements in place to prevent a recurrence and have recovered more than £0.394 million to date. Further details are included on pages 33 and 34.

Area	Assessment	Comment
Control and process environment	Satisfactory	We consider the control environment within the entity to be satisfactory.
Quality of supporting schedules	Good	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	Good	Management's responses to our audit queries were appropriate and received on a timely basis.

Service auditor reports

31. Disclosure Scotland use and rely upon Scottish Government core financial systems to carry out payment and payroll functions. Scottish Government external auditors have provided assurance that, with the exception of payroll, the Scottish Government's main systems of internal control operated effectively during 2020/21. Issues were identified regarding the payroll function and Scottish Government have developed an action plan to address these. We have completed sufficient substantive testing to gain assurance that Disclosure Scotland's payroll costs are free from material misstatement in the financial statements.

Action plan and follow up of prior year recommendations

32. An action plan and our recommendations are included in Appendix 2. There have been no action points to follow-up outstanding from prior years.

Other communications

Accounting policies, presentation and disclosures

33. Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by Disclosure Scotland.
34. The accounting policies, which are disclosed in the annual accounts, are in line with the Government Financial Reporting Manual and are considered appropriate.
35. There are no significant financial statements disclosures that we consider should be brought to your attention. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately.
36. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be adequate.

Fraud and suspected fraud

37. We have discussed the risk of fraud with management on regular basis. In 2021 Disclosure Scotland identified one instance of a potential fraud. This matter is under investigation and Disclosure Scotland is also establishing whether there have been any related control weaknesses that require to be addressed.
38. Our work as auditor is not intended to identify instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

39. As part of our standard audit testing, we have reviewed the laws and regulations impacting Disclosure Scotland. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations that would necessitate a provision or contingent liability.

Written representations

40. We will present the final letter of representation to Disclosure Scotland to sign at the same time as the financial statements are approved.

Related parties

41. We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

42. We have received all third-party confirmations required for the purpose of our audit.

Financial sustainability

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



Auditor judgement

A medium-term Strategic Finance plan for next three years is in place, however due to the impact of the pandemic, it has not been updated during this financial year to reflect the impact of the current economic environment.

Disclosure Scotland (the Agency) has historically been a net contributor of funds to the Scottish Government. Since 2018 and following the retribution of English and Welsh basic disclosures income the Agency has required budget input from the SG due to the loss of economies of scale. The impact of the pandemic has resulted in a pause in charging for disclosure checks and a reduction in economic activity has reduced the volume of applications. These circumstances have required the Agency to apply for funding through the Budget Act in year.

A bid for additional capital funding has also been submitted to the Scottish Government for the development and upgrading of key IT systems required to deliver the requirements of the Disclosure (Scotland) Act. The funding bid is very high level and Disclosure Scotland should develop a more detailed and costed delivery plan.

2021/22 financial plan

43. The Scottish Government Budget 2021/22 was agreed by the Scottish Parliament in February 2021, and provides Disclosure Scotland with a total budget allocation of £22.9 million. This is an increase of £1.6 million (7.5%) on the 2020/21 opening budget and a decrease of £9.2 million (28.7%) against the 2020/21 final Spring Budget Revision. This last difference arises from the way the budget has been adjusted during the year through ABR and SBR.
44. Disclosure Scotland projected the following budget shortfalls in 2021/22:
- £4.6 million of resource cash budget; and
 - £3.4 million in the capital budget.
45. The resource cash shortfall of £4.6 million relate to the macro-economic environment, mainly COVID-19 impact, and free checks introduced at the beginning of the pandemic and continuing for some categories of claims.
46. Disclosure Scotland expects to receive from Health and Social Care Directorate a £1 million transfer at the Autumn Budget Revision to address income shortfalls created providing health organisations a free service. The Agency have already identified the remaining £3.6 million shortfall with the Children and Families Directorate which they will meet in the Spring Budget Revision.
47. A shortfall of £3.4 million has been reported against capital budget of £9 million.
48. The capital budget includes the following:
- phased work to deliver a proportion of the digital requirements of the Disclosure (Scotland) Act;
 - system upgrades through platform re-engineering;
 - replacement of Alfresco component in PASS;
 - continuous digital improvements to drive processing efficiencies and reduce manual interventions; and
 - software, software licences and hardware.
49. Based on current estimates, Disclosure Scotland will run out of the capital funding in late Autumn of 2021 and will need to secure additional funding through the Autumn Budget Revision. The Agency is working with the SG finance team to address the shortfall.
50. Disclosure Scotland identifies all financial requirements of the Agency and reflects them in an annual budget prepared internally. In the recent years however, the initial budgets assigned by the Scottish Government have been much lower when compared to Agency's requirements. The shortfalls are covered ad hoc in the year through budget revisions introducing an element of uncertainty into the Agency's financial planning. We do note that it is not entirely in control of Disclosure Scotland, and we would encourage further communication with the Scottish Government to make the budget planning more predictable.
- Action plan point 1**

Future financial plans

51. Long term financial planning at Disclosure Scotland is driven by a strategic need to improve efficiency within the organisation to reduce overall funding reliance on Scottish Government and by the requirements of the Disclosure (Scotland) Act 2020 which received Royal Assent in 2020, but is yet to be enacted.
 52. 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 the last two financial years and is also expected going forward.
 53. Disclosure fees are set by Scottish Ministers, and last updated in 2011. The impact of Disclosure Barring Service transition may lead to the requirement to review disclosure fees. PVG applications are provided for free to Qualifying Voluntary Organisations which account for 20% of all PVG checks. Disclosure Scotland receives funding from the Health Portfolio to contribute to the cost of "Free Checks" for Health Related volunteers and a contribution towards their continuous monitoring. A review of such costs has been included within the financial model mentioned above. The financial model takes into account the financial position of Disclosure Scotland dependent upon the annual charge of the PVG Scheme.
 54. The structure of the new fees that will be based on the Disclosure (Scotland) Act will be subject to consultation by the Scottish Government around the end of 2021.
 55. Disclosure Scotland prepared a Strategic Finance paper last year. This paper explores key themes that will lead to the realisation of savings between 2020/21 and 2023/24 and beyond this period. The Strategic Finance paper was revisited in February 2021 to reflect on in-year performance and upcoming financial year budget.
 56. The Agency 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.
- ### The Disclosure (Scotland) Act 2020
57. During the pandemic, the Government passed the Disclosure (Scotland) Act in June of 2020. One of the key features of the Act is the implementation of a new fee charging regime to support Disclosure Scotland potentially becoming a self-funding agency. Disclosure Scotland has developed financial models to understand the financial impact of the new legislation.

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.

58. 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.
59. Disclosure Scotland has a Change Team in place to coordinate the delivery of the Act. The responsibilities are allocated with individual aims and business plans are developed or in development. There is monthly progress reporting from all individual areas plan holders to the Change Team.
60. Financial sustainability remains a challenge and it is recognised that work is required to further update the

financial strategy to reflect the emerging position taking cognisance of the impact of the above factors and reflect dynamically changing circumstances.

61. We note that the Agency has not updated the Strategic Finance long term plan's financial projections. This is planned to be performed during the current financial year to take into account current economic situation, needs of the new legislation implementation and uncertainty over fees income. While the Disclosure (Scotland) Act has no fixed date for implementation, Disclosure Scotland aims for delivery of the minimum viable product during 2023/24.

Action plan point 2

Capital plans

62. Disclosure Scotland have submitted a high level capital bid to Scottish Government for the next five years starting in 2021/22.
63. The capital plan outlines significant capital investment required in the introduction of the Disclosure (Scotland) Act which will change the types of disclosures checks performed and will require PASS upgrades. Other category includes various individual projects relating to security, finance integration, PASS integration, Contact Centre services, New Search and update and performance improvements.

64. The capital programme describes a high level roadmap for the next five years, including development of enhanced minimum viable product to meet the new Act requirements, continuation of platform development and consolidation of the existing products which is expected during 2023/24. Disclosure Scotland is yet to develop the detail behind the capital plan, including individual business cases.

Action plan point 3

5 year capital bid (£million)

Capital budget	2021/22	2022/23	2023/24	2024/25	2025/26	Total
Disclosure (Scotland) Act	3.0	4.0	4.0	Nil	Nil	11.0
Platform re-engineering	1.6	1.6	1.2	Nil	Nil	4.4
PASS upgrades	1.8	0.3	Nil	Nil	Nil	2.1
Other	2.5	2.5	2.5	4.3	4.3	16.1
Total	8.9	8.4	7.7	4.3	4.3	33.6

Source: Capital Investment bid 2022-26

Financial management

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



Auditor judgement

Disclosure Scotland have generally effective arrangements in place for financial management and the use of resources. The Agency managed the impact of the COVID-free applications introduced by the Scottish Government in the year.

System of internal control operate effectively, with further improvements made in year in to improve the internal control environment.

In this context, we note that a weakness in the approval process for updating charging rates led to undercharging of £0.5 million for PVG checks during the year. The majority of these undercharges have now been recovered, however, the Agency has had to redirect significant resource to resolve the issue.

Financial performance

Financial outturn in 2020/21

65. During this challenging financial year, Disclosure Scotland reported an underspend of £2.8million. The total outturn was £27.6million against the SBR budget of £30.2million. The table below details the financial performance.
66. The revenue underspend included £1.6million relating to a higher than required allocation for the movement

in employee benefits, an unforeseen increase in income and an underspend in IT computer services (PASS service costs). The remaining £0.4million of the underspend was against non-cash budget allocation and due to amortisation of the developed software system being less than expected.

67. The capital underspend of £0.6million reflected slower than estimated spend on the PASS development.

2020/21 Performance against SBR budget

	Budget £m	Actual £m	(Underspend) £m
Revenue DEL	24.4	22.4	(2.2)
Capital DEL	5.8	5.2	(0.6)
Total	30.2	27.6	(2.8)

Operating expenditure

68. Operating expenditure of £25.4million incurred in year consisted of £16.6million (65%) of staff costs, £2.9million of programme cost (11%), with 24% of the remaining expenditure consisting of all other operating costs. This cost pattern has changed compared to prior year as Disclosure Scotland's contract with BT was not renewed due to implementation of PASS. BT payments represented 21% or £7.2 million of the operating expenditure in 2019/20.

69. Staff costs have decreased by 2.4% compared with 2019/20, mainly reflecting a £0.9million decrease in agency cost. Other operating expenditure has decreased by 46% in year, because of the discontinuation of BT contract and a £0.5million decrease in other admin expenditure.
70. During the year the Agency spent £0.8 million on COVID-19 related costs, of which most significant items include:
- £0.537million on staff costs;
 - £0.168million on IT costs; and

- £0.110million on other costs.

Operating revenue

71. Revenue from applications was £9million in 2020/21 compared to the prior year's £15.3million. This 41% decrease was due to the economic impact of COVID-19 and COVID-free applications introduced by the Scottish Government. Applications volumes decreased to 494,000 compared to prior year's 579,000. This was 17.1% lower than the Agency's original forecast.
72. Disclosure Scotland carried out 167,000 checks classed as "COVID-Free", including 93,000 of basic, standard/enhanced applications and 74,000 of PVG applications. The majority of the free applications were processed in the first six months of the financial year. The remaining 327,000 applications were classed as business as usual.
73. Disclosure Scotland re-introduced fees for basic applications from 9 June

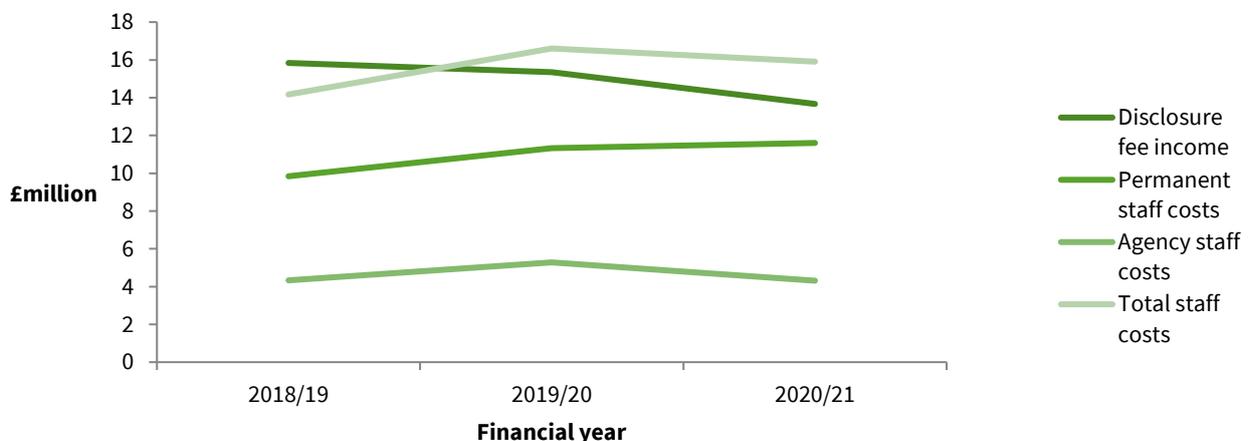
2020, followed by all other application types on 26th June 2020.

74. The Agency estimates that the Scottish Government's introduction of free disclosure checks to support businesses and other entities during COVID-19 economic downturn cost £4.7 million in lost income.
75. To make up for the income lost by Disclosure Scotland the Scottish Government provided an additional £7.1million of resource budget.

Operating trends

76. 2020/21 application income trends were impacted by the pandemic and we have adjusted the fee income below for the income that would have been received to the 2020/21 number if it not had been for the free applications scheme. The trends prior to 2018/19 are not included as the numbers would be not comparable. Prior to that year the Agency also processed Basic applications for England and Wales.

Revenue and expenditure trends



77. Overall, the staff and agency staff costs reflect the volume of applications represented by income levels. The numbers show small movements between years reflecting income fluctuations in relation to the in the year demand.
78. The use of temporary agency staff aligns with Disclosure Scotland's business model to proactively manage seasonal trends in demand and to support the additional costs of temporary 'workarounds' associated with the introduction of the PASS system. Disclosure Scotland incurred agency staff costs of £4.3million in 2020/21, representing 27% of 2020/21 staff costs (£15.914million), which decreased from 32% in the prior year. In absolute terms, agency staff costs were £0.9million (or 17%) lower compared with prior year. At the same time the Disclosure staff cost increased by £0.3million.
79. This decline in agency staff costs reflects the lower level of applications in the year and an introduction of an online PVG application process in September 2020. Also, the paper applications number decreased with the introduction of PASS and moved from 60% in 2019-20 to 48% in 2020/21, adding to the cost decrease and reflecting the efficiency benefits of investment in the new PASS system.
80. However, a number of agency staff were employed in relation to the Transformation Programme. These skills are in high demand and required to support Disclosure Scotland as they work to limit, and eventually eliminate, reliance on manual workarounds associated with the PASS system. We expect this will continue with the need of preparing for the Disclosure (Scotland) Act implementation.
81. Going forward, Disclosure Scotland plans to decrease the number of agency staff from the c.100 in 2020/21 to 15 in the current financial year. This is to reflect changes in the operating model and savings obtained through PASS implementation, its improvement and move to the digital processes.
82. Also, this year's non-cash budget allocation was underspent due to slower than expected progress with PASS improvements implementation. With the expected increase in capital budget in 2021/22 the Agency has to ensure that the progress on the IT projects matches the plan and budgets.

Budget setting

83. Disclosure Scotland budget is set by the Scottish Government and the approach to financial planning is aligned with the Scottish Government's budget setting process. Disclosure Scotland is expected to manage its budget in accordance with the Framework Document and the Scottish Public Finance Manual.
84. At the Disclosure Scotland level the overall staffing levels are agreed with the Director of Corporate Services and the Board and Leadership Team. Budget model prepared separately on staff costs, expenditure, income, capital and then these are

incorporated into an overall expenditure model.

85. Budgeted expenditure is being monitored on a monthly basis. However, the Agency is currently developing a more detailed monthly monitoring process to allow the Strategic Finance Advisory Panel (SFAP) to consider expenditure in greater detail.
86. The agreed budget is profiled for the Scottish Government in monthly monitoring returns which:
- compare actual with profiled budget;
 - include explanations for variances and for the projected outturn; and
 - include explanations for movement from last return on movement on the projected outturn.
87. Overall, we conclude these arrangements are well designed, however we note in the financial management section that budget shortfalls indicate potential to improve the overall budget setting and management processes.

Systems of internal control

88. 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 objectives and safeguard and secure value for money from the public funds at its disposal.
89. We have evaluated Disclosure Scotland's key financial systems and internal financial controls to determine whether they are adequate. We noted

two instances were processed could be or had been already improved. One relates to the journals authorisation process and the other relates to the PVG undercharge error identified by Disclosure Scotland and detailed below.

90. We did not identify any other significant weaknesses in Disclosure Scotland's accounting and internal control systems during our audit.
91. We note that the Director of Finance and Business Support left the organisation in June 2021. Currently, options are considered by management, including appointing an interim finance director. In the interim, the Director of Corporate Services is overseeing the finance team activities.

Journals authorisation evidencing

92. Our audit found that the approval process for journals during the pandemic was more informal. Monthly accruals and prepayments journals were discussed between accountants and the approver, but the evidence of that discussion and approval was not retained for longer than 5 days. As a result, there was insufficient evidence retained to confirm appropriate journals authorisation.
93. In response to that point management has immediately implemented more formal arrangements and staff are noting preparers and authorisers on individual journals.
94. Our audit did not identify any further control issues through our substantive sampling and analytical testing of journals.

PVG undercharge

95. During the year, Disclosure Scotland reported that PVG charges were

updated incorrectly in the income system during the year causing an undercharge of £0.5million for 666 organisations. The error goes back to March 2020 when a member of staff updated the fees system whilst extracting sales data directly from PASS, but this update was not independently tested. The affected organisations were charged a lower than required fee i.e. £18 instead of £59 per application.

96. When discovered, the Agency fixed the error and implemented mitigating actions, so a similar error does not occur in the future. The Accountable Officer's has commissioned an internal audit review to investigate the error and make recommendations to improve internal control and prevent a recurrence.

97. Disclosure Scotland wrote to all organisations impacted to apologise and explain the error and to ask for the full price to be paid. At the time of finalising this report Disclosure Scotland had recovered £0.394million of £0.500million undercharge and recovery of the remaining £0.098million is ongoing. As at the beginning of August 2021 £0.026million was in the process of being recovered through regular contact with debtors. The amount outstanding is reducing on a daily basis.

- 629 of 666 affected organisations had now paid the correct amount;
- 5 organisations ceased trading and Disclosure Scotland wrote off £410 of the relating debt; and
- all organisations have now been contacted directly regarding this debt.

98. The recovery process itself took a number of staff out of their day-to-day activities and required overtime work with the cost of the whole exercise is still to be assessed by Disclosure Scotland.

Prevention and detection of fraud and irregularity

99. Our audit was planned to provide a reasonable expectation of detecting material misstatements in the financial statements resulting from fraud and irregularity. We found the Disclosure Scotland's arrangements for the prevention and detection of fraud and other irregularities to be adequate.

100. There was one instance of potential fraud identified in the year and it is currently investigated.

101. In accordance with the Audit Scotland's briefing *Covid-19: Emerging fraud risks* we have assessed 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. We found that the Agency arrangements are appropriate.

Governance and transparency

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



Auditor judgement

Governance arrangements at Disclosure Scotland were found to be satisfactory and appropriate, including throughout the COVID-19 pandemic.

Agile governance structures and robust frameworks have been developed and revised during the COVID pandemic response.

The Agency managed effectively introduction of the Management of Offenders (Scotland) Act and is preparing for the Disclosure (Scotland) Act implementation.

Disclosure Scotland has appropriate risk management arrangements in place.

Governance and transparency

Responding to the COVID-19 pandemic

102. In response to the COVID-19 pandemic, Disclosure Scotland implemented changes to its governance model to ensure the organisation was responding effectively, discharging its governance responsibilities and making effective use of available resources.
103. A COVID-19 specific risk register was produced to identify, manage and control risks and challenges which the pandemic presented.
104. 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.
105. 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;
 - Stakeholder Engagement and Social Mission;
 - Business Improvement;

- Disclosure Act; and
- Strategic Finance.

106. Each of these groups will be supported by an independent governance panel, chaired by a NEBM.
107. In June 2020 Disclosure Scotland developed its COVID-19 recovery strategy to:
- provide detail of the key activities that are required to transition from the current position of business continuity to “normal” service, structure and ways of working;
 - identify the assumptions, dependencies, key risks and opportunities arising from the COVID-19 Business Continuity approach, that underpin the recovery activities; and
 - provide high level overview of the opportunities for organisational transformation that have emerged during business continuity and recovery and how these frame our recovery plan and inform priorities for the future.

Workforce management

108. The following changes to senior management were made during the year:
- The Director of Finance left the organisation in June 2021; and
 - The Director of Operations & Strategic Change was appointed as Deputy Chief Executive in January 2021.

109. To respond to the rapidly changing environment, and to ensure a safe working environment, Disclosure Scotland established a remote workforce with 80% of staff being able to work from home, enabling the implementation of physical distancing advice. Disclosure Scotland procured, set up and distributed the equipment to staff across the organisation to enable home working.
110. As recommended by internal audit, a programme to boost training for line managers was commissioned during the year to ensure managers are equipped to deal with the new normal effectively and in the new Hurricane team environment. This demonstrates that the Agency are positively responding to recommendations made as well as actively providing their staff with the necessary skills and resources to cope with the rapidly changing working environment.

Legislative and framework changes

111. The Disclosure (Scotland) Act 2020 received Royal Assent on 14 July 2020. This Act is the legislative framework to modernise and improve the proportionality of the disclosure system in Scotland. Disclosure Scotland developed an implementation and engagement plan to address the Act's implementation.
112. Additionally, Disclosure Scotland had to adapt and redesign their training programme to ensure staff had the relevant skills and experience to cope with both the Management of Offenders (Scotland) Act and the Age of Criminal Responsibility Act.
113. Disclosure Scotland's activities are also based on a Framework Document describing governance arrangements. The Agency reviewed the Framework

in April 2021 and updated it for the change in Chief Executive officer and to reflect the establishment of new governance arrangements.

Board / Committee structures

114. The Chief Executive is supported by the Board which consist of five non-executive and four executive members. Three non-executive and one independent member's contracts were extended during the year. In 2020/21 the key activities of the Board focused on: business continuity and recovery strategy, strategic finance, revised business plan 2020/21 and system performance, architecture and online services.
115. Disclosure Scotland also has an Audit and Risk Committee in place with one independent member and three non-executive members. The ARC is responsible for overseeing risk, control and governance arrangements that are in operation.
116. Through our review of the committee and board papers, we are satisfied that there has been effective scrutiny, challenge and informed decision making through the financial period.

Internal audit

117. An effective internal audit service is an important element of Disclosure Scotland's overall governance arrangements. Internal audit services are provided to Disclosure Scotland by the Scottish Government. As a part of their external audit of the Scottish Government, Audit Scotland assesses the IA function and did not find any areas of significant non-compliance with the Public Sector Internal Audit Standards.
118. During the year, internal audit carried out a three assurance reviews, two

advisory reviews, one audit being a mix of both assurance and advisory and three follow-ups of the previous work. Each of the three assurance reviews provided Disclosure Scotland with 'reasonable' level of assurance.

119. Internal audit provided overall reasonable assurance over Disclosure Scotland's system of internal control for 2020/21.

Risk management

120. Public sector bodies face increasing demand for quality service at a time of significant financial pressure. Well-developed risk management arrangements helps bodies to make effective decisions and secure better use of resources.
121. Disclosure Scotland has an established risk management framework in place which sets out the

risk management process and culture. Risk management reports are presented as a standing item to the ARC and the Board are kept sufficiently abreast of developments.

122. Updates to the corporate risk register ensure that the significant operational and financial challenges currently faced by the organisation are appropriately recognised within. To ensure that the implications and effects of the pandemic are being monitored, the Agency created a COVID-19 risk register in addition to their corporate risk register. At the same time a number of risks on the corporate risk register were put on hold to focus the response on the COVID ones.

Value for money

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



Auditor judgement

The Board has appropriate performance management processes in place that support the achievement of value for money. Application processing performance declined to 78.9% below the required target of 90% applications processed within 14 days which was due to the impact of remote working and COVID-free applications prioritisation. Disclosure Scotland prepared 'lessons learned' analysis reports for the Board and undertook a number of initiatives to improve performance.

The PASS system contributes to operational efficiency, but it still required manual workarounds costing the Agency £2.9million during the year. Addressing the workarounds remains a priority and Disclosure Scotland estimates a decrease of this cost to £1.1million during 2021/22.

The PASS system was operational throughout the year, but in the second half of the year the system required significant IT staff time to be diverted to fix PASS performance issues which in turn impacted adversely on other ongoing critical software developments.

There have been a number of successful digital projects implemented during the year, including PVG online, credit card payments support for certain products and implementation of functionality for the Management of Offenders Act. The management of IT investments projects essential for the effective implementation of new responsibilities under the Disclosure (Scotland) Act 2020 remains a key challenge and priority for the organisation.

Responding to the COVID-19 pandemic

123. Disclosure Scotland contributed to the national COVID-19 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 continued for the entirety of this financial year.
124. Disclosure Scotland opened up payment channels for basic disclosures on 9 June and for PVG, Standard and Enhanced on 26 June 2020.

Performance in 2020/21

125. Disclosure Scotland has a Service Level Agreement performance target to process 90% of correctly completed applications within 14 days. The average processing time for all applications was 9.1 days with 78.9% of applications completed within 14 days. The decline in performance was

caused by the move to remote working, IT issues, seasonal higher demand in PVG application and prioritising COVID-free applications.

126. Disclosure Scotland delivered the priority service to expedite COVID response worker applications within 5 days as opposed to standard Service Level Agreement of 14. COVID-free applications were prioritised, and their average processing time was 5.6 days with 89.1% of applications completed within 14 days.
127. The annual performance report presented to the Board considered causes and lessons learned from 2020/21 performance. There was also a number of actions noted demonstrating clearly an appetite for improvement. Performance levels in the first quarter of 2021/22 has been over 90% for all product types.

Summary of the performance

Application type	Applications completed		Average processing time (days)		% processed within 14 day target	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Basic/Standard/Enhanced	270,000	277,000	8.8	5.3	78.5%	97.6%
COVID	93,000		6.5		83.3%	
BAU	177,000		10.0		76.0%	
PVG	211,000	288,000	9.4	8.4	79.3%	82.3%
COVID	73,000		4.4		96.4%	
BAU	138,000		12.1		70.2%	
Total	481,000	565,000	9.1	6.9	78.9%	89.8%
COVID	166,000		5.6		89.1%	
BAU	315,000		10.9		73.5%	

Digital work update

128. The main digital work achievements during the year include:

- moving to remote working for the Agency's staff;
- updating PASS for COVID type applications;
- introduction of a new payment portal for taking credit card payments for PVG applications;
- implementation of automated counter signatory notifications;
- addressing significant performance issues in November 2020;
- successful implementation of functionality for the Management of Offenders Act;
- implementing a number of PVG functionalities; and
- commenced work on platform re-engineering in February 2021.

129. All applications were moved to the PASS system as at September 2019 which concluded Disclosure Scotland's use of the BT Legacy system.

130. 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, with £2.9million actual cost in 2020/21 and estimated £1.1million in 2021/22. They require the continued employment of agency staff to process the manual workarounds. Addressing these manual workarounds remains an operational priority for Disclosure Scotland.

131. During 2020/21, Disclosure Scotland faced further challenges with the PASS functionality with a high number of priority 1 incidents reported. The service performance deteriorated, partly because of the PASS issues. As a result, the IT development team was diverted to spend around 6-8 weeks on returning the functionality to normal, instead of spending time on platform re-engineering which is

essential for the Disclosure (Scotland) Act implementation.

PVG online

132. The move to PVG (Protecting Vulnerable Groups) applications has now been completed. Disclosure Scotland assessed the total cost of PVG development at £2.7 million and includes:

- £1.3 million for online Beta development;
- £0.8 million for PVG Join (Act) online model; and
- £0.7 million PVG online enhancement for Beta accessibility.

133. Disclosure Scotland estimates the following savings as a result of PVG introduction and reducing the paper-based applications:

Staff	Sep 2019	Jun 2021	Reduction/saving
FTE	158	71	87
Annual cost	£5.1m	£2.3m	£2.8m

134. The £2.8 million saving in reduction of the manual processes does not mean a cash saving in total as of 87 agency and temporary staff, some have been converted to Disclosure Scotland employees, meaning that cash staff saving was around £1.2 million per annum.

Forward plans

135. In 2021-22, Disclosure Scotland plans for further frontline staff savings of £0.9 million as further manual paper workaround reductions and efficiencies are expected from continued use of PVG online. Digital innovation and functional improvements are required to identify what other workarounds efficiencies could be realised through future iterations of PASS.

136. To address known software functionality issues, Disclosure Scotland has developed a detailed strategy and plan to move to a cloud native implementation that should reduce the cost and complexity of PASS without impacting the live system.

Appendices



Appendix 1: Respective responsibilities of Disclosure Scotland and the Auditor

The Code of Audit Practice (2016) sets out the responsibilities of both Disclosure Scotland and the auditor and are detailed below.

Disclosure Scotland’s responsibilities

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.

Area	Disclosure Scotland responsibilities
Corporate governance	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.
Financial statements.	<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. Management commentary should be fair,

Area	Disclosure Scotland responsibilities
	<p>balanced and understandable and also address the longer term financial sustainability of Disclosure Scotland.</p> <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</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. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</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>Financial position</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; • Balances and reserves, including strategies about levels and their future use; • 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 responsibilities
Best value	Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.

Auditor responsibilities

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 of audit

The special accountabilities that attach to the conduct of public business, and the use of public money, mean that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements, but providing audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

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

Independence

In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements there are no further matters to bring to your attention in relation to our integrity, objectivity and independence.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been properly

addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

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. The FRC's Ethical Standard states that careful consideration must be given once an audit engagement partner has held the role for a continuous period of ten years. Our period of total uninterrupted appointment as at the end of 31 March 2021 is six years. As such to mitigate the threat to auditor independence as result of long association, and in accordance with guidance from Audit Scotland, a new audit engagement partner will be appointed for the 2022/23 audit.

Audit and non-audit services

The total fees charged to Disclosure Scotland for the provision of services in 2020/21 (with prior year comparators) is as follows:

	Current year	Prior year
	£	£
Audit of Disclosure Scotland (Auditor remuneration)	45,020	42,976
Total audit	45,020	42,976
Non-audit services	-	-
Total fees	45,020	42,976

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. No non-audit services were provided to Disclosure Scotland.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. The audit quality arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report which covers our work at the Board since appointment can be found at <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

Appendix 2: Action Plan

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

Action plan grading structure

The recommendations have been rated to help Disclosure Scotland assess the significance of the issues and prioritise the actions required.

The recommendations are categorised into three risk ratings:

Key:

Significant deficiency

Other deficiency

Other observation

Current year action plan Action Plan

1. Budget setting	Other observation
Observation	We note that in the last two years Disclosure Scotland had their budget bid significantly higher than the SG initial allocation. The shortfalls are covered ad hoc in the year through budget revisions introducing an element of uncertainty into the Agency's financial planning.
Implication	Lack of budget certainty can make in the year planning and financial control inefficient.
Recommendation	Management should consider revising their approach to budget planning and coordinate this with the Scottish Government to limit the uncertainty in their revenue and capital financing.
Management response	<p>Each year the Budget requirement for Disclosure Scotland is prepared in detail based on the forecast models prepared in advance and shared with the SG centre. The initial forecast models identify Disclosure Scotland's budget requirement which is then included within the Children and Families Directorate overall Budget requirements, Scottish Ministers then allocate budget.</p> <p>As Disclosure Scotland is an income earning Agency the SG centre accept Disclosure Scotland's Budget requirements, however, they do not always allocate the full budget requirement knowing that any additional funding gap can possibly be filled by income. If this does not happen then agreement is usually reached to fill the gap through the Budget revision process. Disclosure Scotland's income is demanded and therefore has to be estimated.</p> <p>Responsible Officer: Lynne McMinn</p> <p>Implementation Date: Winter 2021</p>

2. Strategic Finance long term plan

Other observation

Observation	Financial sustainability remains a challenge and it is recognised that work is required to further update the financial strategy to reflect the emerging position taking cognisance of the impact of the above factors and reflect dynamically changing circumstances.
Implication	Long term strategy is not reflecting current circumstances which makes financial planning more challenging.
Recommendation	Management should revise the current Strategic Finance long term plan to reflect impact of the pandemic and updated timetable for the Disclosure (Scotland) Act implementation.
Management response	<p>The long term financial strategy will be reviewed as part of this year's budget process. There is a strategic financial plan that seeks to deliver real world savings whilst improving productivity and quality of services. We will have three strategic investment priorities; to boost the safeguarding capability for the vital PVG Scheme, to address technical debt in the PASS system and ensure its long-term stability and security and to digitise services and eliminate manual workarounds and paper products. All of this must be consistent with the path to implement the Disclosure (Scotland) Act 2020 as quickly and effectively as possible.</p> <p>Income is already showing signs of an upturn as the country and the economy emerges from the pandemic. Demand is continuing to increase as companies get ready for new recruitment and growth.</p> <p>Disclosure Scotland's key focus is value for money, and through the financial governance of the Act Delivery programme and other projects, costs will continue to be challenged to ensure efficiencies and value for money is delivered. With the introduction of clear and quantifiable benefits realisation models, DS will be able to demonstrate potential efficiencies and return on investment as it moves through the next 3 years.</p> <p>Responsible Officer: Lynne McMinn</p> <p>Implementation Date: Winter 2021</p>

3. Capital plan

Other observation

Observation	The capital programme describes a high level roadmap for the next five years, including development of enhanced minimum viable product to meet the new Act requirements, continuation of platform development and consolidation of the existing products which is expected during 2023/24. Disclosure Scotland is yet to develop the detail behind the capital plan, including individual business cases.
Implication	Lack of detail behind the capital plan can make implementing it and securing budget more challenging.
Recommendation	Capital projects in relation to IT and software tend to be difficult to manage and should be supported by a detailed business plans or cases.
Management response	<p>The Capital requirements over the long term programme are difficult to predict in granular detail. However, Disclosure Scotland will plan delivery to the available budget ceilings for each year and will work to deliver the most essential projects within that envelope. This will ensure that there are strong controls over total spend but retain sufficient agility in the process to allow for agile build methodologies to remain effective.</p> <p>Our approach will be to have a budget envelope for the next 12 months. That will be based on an estimate of work to be completed over that period. Detailed scoping work would be carried out in a just in time manner planning out the next 2-3 months of work in detail. That would draw down against the estimated budget. Outline plans out to 24 months and high level outcome targets for years 3,4 and 5 of the budget cycle. Each period will have a budget ceiling. As year one of the 5 completes, year 2 will have a more detailed plan and so on through to the completion of the cycle and the beginning of a new one.</p> <p>During course of the next 5 years the Agency will undertake development activity to attain our target operating model, which includes stabilising and securing PASS, driving digital innovation and efficiencies into our production process and the National Barring Service and to implement the Disclosure (Scotland) act 2020. All of these require significant IT investment to successfully complete. Capital estimations across this period are based on a best estimate of likely skills and resource required to deliver the intended products, however are difficult to predict with absolute certainty prior to the discovery and options appraisal process associated with product design and development. Each known project will be subject to a</p>

business case, which will develop more financial certainty as projects move through the agile phases of delivery.

The current planning assumption also includes replacement of the Alfresco Activiti software and functionality, introduction of new search and update functionality, introduction of new contact centre services as well as reduction of the technical debt that will improve services around performance, security and data management of the service. There will also be a requirement to transfer the current finance service to a cloud based solution, providing additional resilience to this aspect of the service. The Capital forecast allows for additional scope for emerging change and gives Disclosure Scotland a level of contingency as the programme of work develops.

A review of the overall plan is underway to build greater strategic insight into the ordering and execution of this work, with safeguarding, security, efficiency (including financial efficiency) and strategic coherence with the goal of delivering the 2020 Act paramount. The aim is to support this work with a range of business cases that will provide the Agency Leadership Team with confidence that the proposed spend has been targeted appropriately to our corporate strategy. This is also in line with external governance needs of the Gateway and Technology Reviews.

Responsible Officer: Neill Kemp

Implementation Date: Winter 2021

