



## Disclosure Scotland

2021/22 Annual Audit Report to the Accountable Officer and the Auditor General for Scotland

August 2022



# Table of Contents

---

Key messages	3
Introduction	10
Financial statements audit	13
Financial sustainability	25
Financial management	31
Governance and transparency	37
Value for money	45
Appendices	51

---

# Key messages



This report concludes our audit of Disclosure Scotland for 2021/22.

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

---

## Financial statements audit

<b>Audit opinion</b>	<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 to disclosures relating to material uncertainties.</p>
<b>Key findings on audit risks and other matters</b>	<p>We have reported our audit findings on pages 13-24. We have not identified any audit adjustments.</p> <p>We are pleased to report that the audit progressed well and in accordance with the agreed timetable. The accounts and working papers presented for audit were of a good standard.</p>
<b>Audit adjustments</b>	<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. We agreed a small number of presentational amendments with the finance team.</p>
<b>Accounting systems and internal controls</b>	<p>We have applied a risk-based methodology to the 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. No material weaknesses or significant deficiencies were noted.</p>

## Wider scope audit

---

### Auditor judgement



As in line with prior years, the implementation of the Disclosure (Scotland) Act 2020 (the Act) continues to be a significant undertaking and work is ongoing to ensure that the Act can be delivered in line with the deadline. Disclosure Scotland have developed its Corporate Strategy: DS 25 during the year. This forward-looking document focuses on the implementation of the Act.



### Financial Sustainability

The legislation outlining the new framework for Disclosure Scotland's activities received Royal Assent in 2020. The Agency has instigated a review of its fee structure as part of its implementation of the Act, with any final decision of fees resting with Scottish Ministers and Parliament. Disclosure Scotland has prepared a financial analysis for different operating and charging model options but has yet to agree a preferred model for further consultation. The absence of a preferred charging model limits the ability of Disclosure Scotland to develop a Medium Term Financial Strategy (MTFS) and to demonstrate how it plans to achieve financial sustainability.

Whilst Disclosure Scotland carry out financial forecasting in relation to the individual projects supporting implementation of the Disclosure (Scotland) Act 2020 it has yet to develop an overarching MTFS setting out the expected financial operating model for the Agency. The development of an MTFS would represent a significant improvement to financial governance.

Disclosure Scotland have implemented our prior year recommendation to develop more detailed capital plans, setting out timescales and budgets to support improved scrutiny and governance.

---

---

## Auditor judgement



---

Disclosure Scotland reported a significant revenue underspend of £5.1 million caused mainly by an increase in the demand for its services.

The Agency also noted a decrease in the agency staff revenue cost indicating more effective and efficient ways of working and service delivery.

There has been an underspend on capital projects of £1.1 million and this continues the trend of capital underspends over a number of years. The spend on IT consultancy staff working on capital projects remained high at £5.1 million.

Both revenue and capital underspends indicate scope for improving capital and revenue budget forecasting and monitoring.

A new monthly monitoring process was introduced during the year through the introduction of a Programme, Project and Change Highlight Report. The revised finance dashboard in this report aims to help project managers map out estimated projects costs.

Disclosure Scotland is engaging on a significant capital project to update its IT systems in readiness for implementation of the new Act and to address identified improvements to existing processes. Spend on individual projects associated with this capital programme and overall progress in the year are regularly monitored and reported. While we note that the work on improving the quality of this reporting is continuing, there is no overarching report in place to track the progress of the key projects during their full lifetime to assess their overall performance. This represents a gap in current financial reporting arrangements.

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



### Financial Management

---

## Auditor judgement



---

Governance arrangements at Disclosure Scotland were found to be improving and good overall.

Disclosure Scotland introduced new processes and structures to help with the delivery of its key objectives. These new arrangements included the development of a Change Delivery Framework and creation of Change Teams responsible for the key project delivery, with finance function representation in each team. Additionally, a Change Management Team has been established to provide a central advisory role.



Other positive enhancements to governance arrangements include establishment of a project register, piloting a change initiation matrix, implementing standardised change management reporting structures, monthly reporting cycles, skills assessment and utilising good practice from other public sector entities.

A People Strategy is in the process of development but not yet in place. We note the dynamic nature of Disclosure Scotland's workforce structure, including the use of Agency Staff and Contractors. The requirements associated with implementation of the new Act will also impact on the skills and capacity requirements of the Agency and implementation of an effective workforce strategy remains a priority.

Disclosure Scotland has appropriate risk management arrangements in place. Work has also been carried out on revising the Corporate Risk Register and aligning the work to the Risk Strategy which has been developed during the year.

---

---

## Auditor judgement



---

The Board has appropriate performance management processes in place that support the achievement of value for money. Application processing performance significantly improved from the prior year (78.95%) to 98% above the target of 90% applications processed within 14 days. This was largely due to PASS performance improvements, staff upskilling and more efficient process improvements. Disclosure Scotland has prepared 'lessons learned' analysis reports for the Board and undertook a number of initiatives to improve performance.



### Value for Money

Disclosure Scotland are currently carrying out a refresh of the Performance Framework and revising their KPIs with the initial recommendations planned to be presented to the Board in September 2022. This should enable the performance management framework to more clearly align with the new strategy (DS 25) and revised business plans.

Disclosure Scotland consistently out-performs its processing targets for applications. Whilst this outcome is positive, it may also indicate that the Agency has more processing capacity than is needed to meet its targets. We note that the Agency has not yet established its processing capacity (e.g. what volume of applications is the Agency capable of processing whilst continuing to meet key performance targets) and is not yet able to fully demonstrate that it is operating efficiently.

Disclosure Scotland has spent around £11.3 million in the last three years on agency IT staff to deliver its capital projects with the expectation of continuing reliance on agency staff for the foreseeable future. More could be done to demonstrate the Agency's assessment whether this model of delivery represents value for money.

---

## 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 Annual 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 2021/22 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 (“the Agency”) 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. This is our final year of our audit appointment under the current audit arrangements. We would like to thank all management and staff for their co-operation and assistance during our appointment period.

## 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](http://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



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

In this section we summarise the findings from our audit of the 2021/22 annual report and accounts.

---

## Overall conclusion

11. The annual report and accounts were approved by the Audit and Risk Committee (ARC) on 7 September 2022. The Accountable Officer approved the accounts on 9 September.
12. Our independent auditor's report is unqualified.
13. Our audit opinion was based on the Agency approving the financial statements and signing the letter of representation. Within the letter of representation, the Accountable Officer confirmed that there are no subsequent events that require amendment to the financial statements.
14. Our thanks go to staff at Disclosure Scotland for their assistance with our work.

## 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 Disclosure Scotland functions.</p> <p>Our wider scope audit work considers the financial sustainability of Disclosure Scotland.</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
<p>Regularity</p>	<p>We plan and perform our audit recognising that non-compliance with statute or regulations may materially impact on the annual report and accounts.</p>	<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"> <li>• Remuneration and Staff Report</li> <li>• Performance Report</li> <li>• Governance Statement</li> </ul>	<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"> <li>• 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;</li> <li>• 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.</li> </ul>
<p>Matters reported by exception</p>	<p>We are required to report on whether:</p> <ul style="list-style-type: none"> <li>• adequate accounting records have not been kept; or</li> </ul>	<p>We have no matters to report.</p>

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

## An overview of the scope of our audit

- The scope of our audit was detailed in our Annual Audit Plan, which was presented to the Audit and Risk Committee in February 2022. 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*.

#### 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 transactions in such a way as to lead to a material misstatement in the reported financial position.

## 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 revenue 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 ("the SG"). 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.

---

### 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.

---

## Significant risk areas

---

### Audit procedures

- 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

20. 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 one potential area 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
Access to audit evidence	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>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>

## Estimates and judgements

21. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.
22. 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.
23. We considered 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.

## IFRS 16 Leases

24. IFRS 16 was implemented from 1 April 2022 for all government bodies who have not yet adopted the new standard.
25. Disclosure Scotland has a one operating lease for its property that would need to be brought into the Statement of Financial Position under IFRS 16. In preparing for the new standard, the Agency has undertaken an assessment to calculate the impact that this would have on the accounts.
26. Disclosure Scotland calculated the impact as at that date and disclosed the expected future impact of this new accounting standard on its 2022/23 financial statements. Disclosure Scotland expects to recognise £1.3 million of leased assets as at 1 April 2022.
27. We have reviewed management calculations, assumptions used and checked the disclosures completeness and concluded these are appropriate.

## Materiality

28. 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.
29. Whilst our audit procedures are designed to identify misstatements

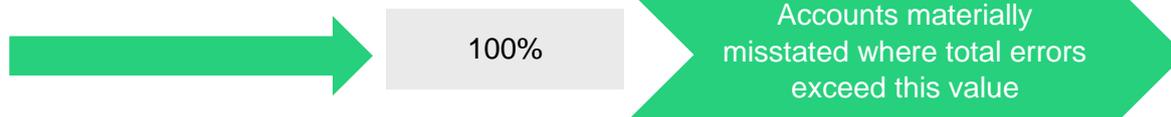
which are material to our audit opinion, we also report to the ARC and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

30. Our initial assessment of materiality for the financial statements was £0.560 million and based on 2020/21 audited accounts. On receipt of the 2021/22 unaudited accounts, we reassessed materiality and decided that it should remain as per the initial assessment, based on the actual expenditure therein.

### Materiality

#### Overall materiality

£560,000



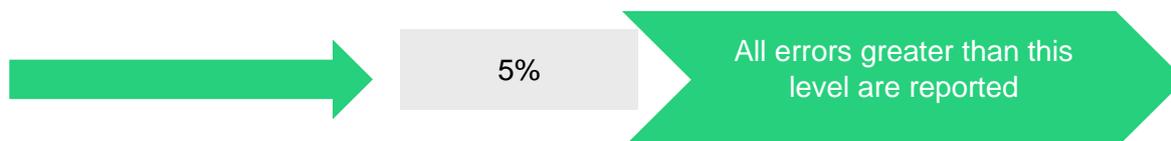
#### Performance materiality

£420,000



#### Trivial threshold

£28,000



<b>Materiality</b>	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.
<b>Performance materiality</b>	<p>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 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>
<b>Trivial misstatements</b>	'Clearly trivial' are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

## Audit differences

31. 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.

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.

## Internal controls

32. As part of our work, we considered internal controls relevant to the preparation of the financial statements

Area	Assessment	Comment
Control and process environment	<b>Satisfactory</b>	We consider the control environment within the entity to be satisfactory. Disclosure Scotland relies on payroll systems provided by the Scottish Government which receive limited assurance from the SG's external auditors.
Quality of supporting schedules	<b>Good</b>	The supporting schedules received during the course of the fieldwork were sufficient for our audit purposes.
Responses to audit queries	<b>Good</b>	Management's responses to our audit queries were appropriate and received on a timely basis.

## Service auditor reports

33. 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 2021/22.
34. Similar weaknesses were identified in the payroll control environment to those reported in prior years, with some progress made in addressing the weaknesses in payroll system. 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

35. An action plan and our recommendations are included in Appendix 2. Action points to follow-up outstanding from prior years are noted in Appendix 3.

## Other communications

### Accounting policies, presentation and disclosures

36. 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.
37. The accounting policies, which are disclosed in the annual accounts, are in line with the Government Financial Reporting Manual and are considered appropriate.

38. 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.
39. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be adequate.

### Fraud and suspected fraud

40. We have previously discussed the risk of fraud with management. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.
41. 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

42. 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 a contingent liability.

### Written representations

43. 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

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

### Confirmations from third parties

45. 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



As in line with prior years, the implementation of the Disclosure (Scotland) Act 2020 (the Act) continues to be a significant undertaking and work is on-going to ensure that the Act can be delivered in line with the deadline. Disclosure Scotland have developed its Corporate Strategy: DS 25 during the year. This forward-looking document focuses on the implementation of the Act.

The legislation outlining the new framework for Disclosure Scotland's activities received Royal Assent in 2020. The Agency has instigated a review of its fee structure as part of its implementation of the Act, with any final decision of fees resting with Scottish Ministers and Parliament. Disclosure Scotland has prepared a financial analysis for different operating and charging model options but has yet to agree a preferred model for further consultation. The absence of a preferred charging model limits the ability of Disclosure Scotland to develop a Medium Term Financial Strategy (MTFS) and to demonstrate how it plans to achieve financial sustainability.

Whilst Disclosure Scotland carry out financial forecasting in relation to the individual projects supporting implementation of the Disclosure (Scotland) Act 2020 it has yet to develop an overarching MTFS setting out the expected financial operating model for the Agency. The development of an MTFS would represent a significant improvement to financial governance.

Disclosure Scotland have implemented our prior year recommendation to develop more detailed capital plans, setting out timescales and budgets to support improved scrutiny and governance.

## 2022/23 financial plan

46. The Scottish Government Budget 2022/23 was agreed by the Scottish Parliament in February 2022 and provides Disclosure Scotland with a total budget allocation of £24.3 million. This is an increase of £1.5 million (6.4%) on the 2021/22 opening budget and a decrease of £3.2 million (13.2%) against the 2021/22 final Spring Budget Revision (SBR). This last difference arises from the way the budget has been adjusted during the year through budget revisions.
47. Disclosure Scotland projected the following budget shortfalls in 2022/23:
  - £3.3million of resource cash budget; and
  - £2.1million in the capital budget.
48. The resource cash shortfall of £3.3 million has been discussed and formally agreed with the Scottish Cabinet to be funded as a priority (Tier 1) pressure at the Spring Budget Revision. We note this method of budgeting is consistent with prior year.
49. The shortfall of £2.1million has been reported against capital budget of £8.4million. It has been confirmed that the capital shortfall will be met from the SG Capital carry forward at the 2022 Autumn Budget Revision (ABR). The capital budget includes the following:
  - IT consultants
  - Permanent Staff and DTS Technical Staff; and
  - software, software licences and hardware.
50. Based on current estimates, Disclosure Scotland will run out of the capital funding in January 2023. However, these shortfalls have already been agreed with the Directorate of Children and Families (DCAF) and have been included as legally committed costs within the SG Finance papers. Disclosure Scotland discussed the shortfall with the SG business partners and expects that following the Autumn Budget Revisions it will secure its full capital requirement.
51. It is estimated that the cost incurred for Agency Staff will be circa £0.8million, which would be a significant decrease of around £2million on the prior year. This budget comprises of 12 agency staff per month in operations, 1 in finance operations, and 23 for the months April to July in Business Improvement. This is a significant reduction and will require close attention to ensure that these reductions can be met, particularly as the work continues on the implementation of the Disclosure (Scotland) Act. However, to compensate for the reduction in Agency staff, permanent staff costs are expected to increase to £16.1million.
52. Disclosure Scotland expect to employ 17 interim IT managers, costing £2.1million. This reflects the ongoing challenges over IT staff recruitment. However, we acknowledge that this is a sector wide issue and that Disclosure Scotland are carrying out the appropriate measures to minimise this issue.
53. Disclosure Scotland identifies all financial requirements of the Agency and reflects them in an annual budget prepared internally. In recent years,

the initial budgets assigned by the Scottish Government have been much lower when compared to the 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. This approach is inefficient and was raised with Disclosure Scotland in the prior year as an area for improvement.

54. Disclosure Scotland note that this was discussed with DS finance business partners but there has been no change to how the budget has been set. The Ministers agreed this approach whilst setting the 2022-23 budget. We do note that it is not entirely in control of Disclosure Scotland, but, similar to the point we raised last year, we would encourage further communication with the Scottish Government to make the budget planning more accurate.

## Future financial plans

55. 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. The total cost of implementing the Act is estimated at £19.5 million.
56. 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.

57. 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 currently provided for free to Qualifying Voluntary Organisations which account for 20% of all PVG checks.
58. 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.
59. The requirements of the Disclosure (Scotland) Act 2020 may lead to a change in fee structures and will be aligned to Disclosure Scotland's future operating model and the cost to deploy its service.
60. The Strategic Finance plan, prepared in 2020 and later updated in 2021, has not been updated by Disclosure Scotland. The savings which were proposed in the paper were not agreed by the Leadership Team members due to the savings being unachievable. Management concluded that this paper was of an optimistic nature which was deemed not feasible.

### Action Point 1

61. It is crucial for Disclosure Scotland to establish a reliable medium-term financial strategy to deliver its

objectives within available resources. To ensure that different models and fee structures are taken into consideration to prevent an over optimistic outlook similar to the prior strategic finance plan, sensitivity analysis should be carried out. We have made this recommendation last year and re-iterate it in 2021/22.

## The Disclosure (Scotland) Act 2020

62. There is a requirement for Disclosure Scotland to make all changes and enhancements needed to enable the new Disclosure Act (the Act) by March 2024. There is a very significant amount of digital work required to meet this undertaking.
63. Therefore, the DS25 Strategy, discussed further in the Governance Section, has been created in the past year and one of its key objectives is to deliver Part 1 of the Disclosure Act into operational delivery by 2024.
64. A fundamental challenge towards achieving this deadline will be the recurring IT recruitment issues, which have been identified as a corporate risk. The issues over recruiting IT staff is a Public Sector wide matter and therefore is a challenge which is not entirely in the control of Disclosure Scotland. However, Disclosure Scotland have been identifying ways to tackle this issue; such as carrying out relevant training, securing permanent delivery managers and employing a new resourcing manager.
65. One of the key activities surrounding the Act implementation is the

consideration 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.

66. 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.
67. 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.
68. The costing and pricing models will have to undergo a public consultation process. After that a submission will need to be made to the Ministers and approved by them and then by Parliament in order to decide on the future delivery model and implement this new fee structure.
69. During the past year, there have been delays on progressing with the new delivery model and with consulting the Scottish Government about specific fee and operating model to link it with the Act implementation. This is critical to support effective financial planning and budgeting for Disclosure Scotland and to align with the delivery of the Act.

### Action Point 2

## Capital plans

70. Disclosure Scotland have submitted a high-level capital bid to Scottish Government for the next five years starting in 2021/22.
71. The capital plan outlines significant capital investment required in the introduction of the Act which will change the types of disclosures checks performed and will require PASS upgrades. Other projects relating to security, finance integration, PASS integration, Contact Centre services, new Search and update functionality and performance improvements are also envisaged.
72. 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.
73. Our 2021-22 audit identified that Disclosure Scotland had yet to develop the detail behind its capital plans, including individual business case. We are pleased to report that Disclosure Scotland implemented this recommendation and developed detailed projects plans to support the delivery of its objectives.

### 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
<b>Total</b>	<b>8.9</b>	<b>8.4</b>	<b>7.7</b>	<b>4.3</b>	<b>4.3</b>	<b>33.6</b>

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 reported a significant revenue underspend of £5.1 million caused mainly by an increase in the demand for its services.

The Agency also noted a decrease in the agency staff revenue cost indicating more effective and efficient ways of working and service delivery.

There has been an underspend on capital projects of £1.1million and this continues the trend of capital underspends over a number of years. The spend on IT consultancy staff working on capital projects remained high at £5.1 million.

Both revenue and capital underspends indicate scope for improving capital and revenue budget forecasting and monitoring.

A new monthly monitoring process was introduced during the year through the introduction of a Programme, Project and Change Highlight Report. The revised finance dashboard in this report aims to help project managers map out estimated projects costs.

Disclosure Scotland is engaging on a significant capital project to update its IT systems in readiness for implementation of the new Act and to address identified improvements to existing processes. Spend on individual projects associated with this capital programme and overall progress in the year are regularly monitored and reported. While we note that the work on improving the quality of this reporting is continuing, there is no overarching report in place to track the progress of the key projects during their full lifetime to assess their overall performance. This represents a gap in current financial reporting arrangements.

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

## Financial performance

### Financial outturn in 2021/22

74. During this financial year, Disclosure Scotland reported a total underspend of £6.2million. The total outturn was £21.3million against the SBR budget of £27.5million. The table below details the financial performance.
75. The revenue underspend included £4.1million relating to a significant unforeseen increase in income combined with an underspend in IT computer services costs. The remaining £0.9million of the underspend was due to slower than expected delivery of the capital assets which reduced amortisation charges for the year.
76. The capital underspend of £1.1million reflected slower than estimated spend on the PASS development.

### 2021/22 Performance against SBR budget

	Budget £m	Actual £m	(Underspend) £m
Revenue DEL	20.8	15.7	(5.1)
Capital DEL	6.7	5.6	(1.1)
<b>Total</b>	<b>27.5</b>	<b>21.3</b>	<b>(6.2)</b>

### Operating expenditure

77. Operating expenditure of £24.8million incurred in year consisted of £15.9million (64%) of staff costs, £3.2million of programme cost (13%), with 23% of the remaining expenditure consisting of all other operating costs.
78. Staff costs have decreased by 2% compared with 2020/21. Whilst the wages and staff costs have increased by £1.3million, the decrease is mainly a result of the £1.8million reduction in agency costs. Other operating expenditure has decreased marginally
79. due to the reduction of admin expenditure during the year.

### Operating revenue

80. Revenue from applications was £15.5million in 2021/22 compared to the prior year's £9.0million. This 42% increase was a reflection of the economy recovering from the impact of Covid-19. Additionally, the volume of free Covid applications introduced by the Scottish Government has reduced in the financial year. Applications volumes increased to 624,000 compared to prior year's

494,000. This was 5.6% higher than the Agency’s original forecast, but resulted in 41% higher than expected income. There is a scope for improvement in internal budget forecasting and monitoring process.

Covid-19 economic downturn cost £2.2 million in potential income for 2021/22.

**Action Point 1**

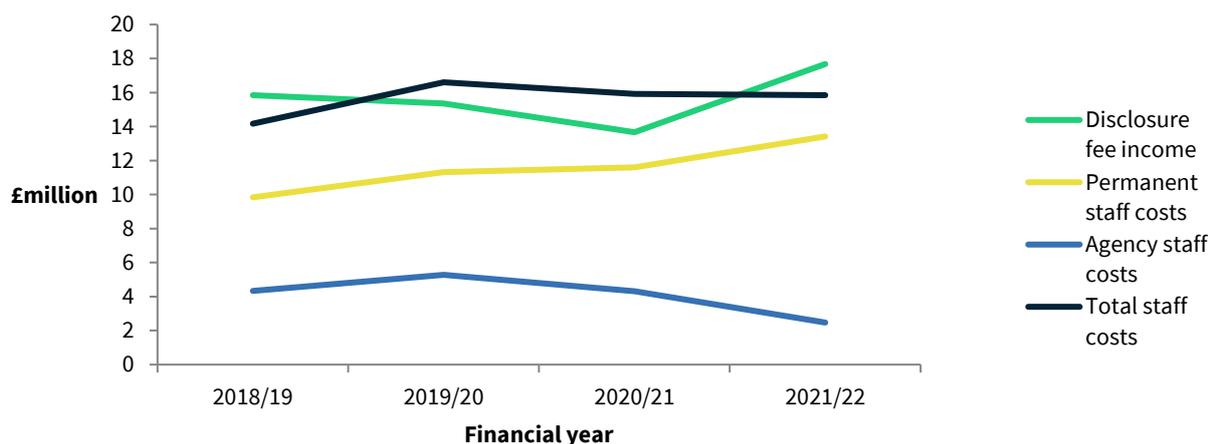
- 81. Disclosure Scotland carried out 67,000 checks classed as “Covid-Free”, including 27,000 of basic, standard/enhanced applications and 40,000 of PVG applications. The highest volume of free applications was received between July to October 2021 during the financial year. The proportion of Covid applications received was 13%.
- 82. Disclosure Scotland continued to provide Covid-free checks throughout the financial year.
- 83. The Agency estimates that the Scottish Government’s introduction of free disclosure checks to support businesses and other entities during

- 84. Income received during the year was in line with pre-pandemic income levels which indicates a return to more “normal” processing volumes. This performance reduced the requirement for additional funding to compensate for lost income through the pandemic significantly.

**Operating trends**

- 85. 2021/22 application income trends were far more positive compared to the prior year. As a result of businesses recovering from the pandemic, there was a substantial increase in applications during the year. We have adjusted the fee income below for the income that would have been received to the 2021/22 and prior year numbers if the free applications scheme had not been in place.

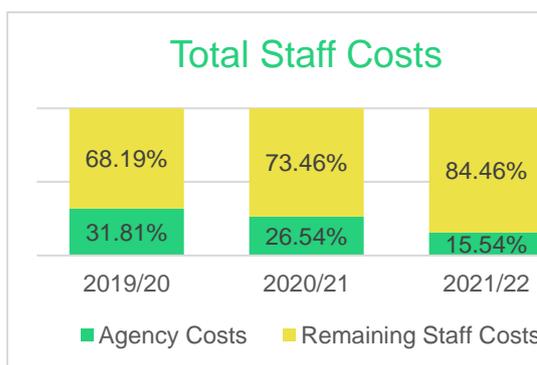
**Revenue and expenditure trends**



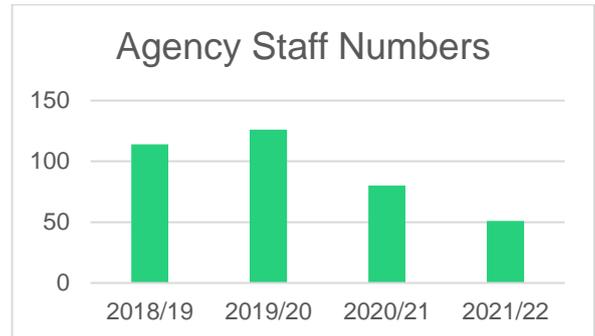
95. Overall, staff and agency staff costs reflect the volume of applications represented by income levels. The numbers show small movements between years reflecting income fluctuations in relation to the in the year demand.

96. The graph also illustrates the relationship between permanent staff and agency staff over the years, with the permanent staff costs increasing as the agency costs reduce. This is a positive trend for Disclosure Scotland and is more cost-effective. The change also reflects improvement in addressing manual workarounds which are currently required for the implementation of the PASS System and the work ongoing for the Act.

97. The graph below shows that the proportion of agency costs to total staff costs is steadily reducing. Disclosure Scotland incurred agency staff costs of £2.5million in 2021/22, which decreased from £4.3million in the prior year. In absolute terms, agency staff costs were £1.8million lower compared with prior year.



98. Whilst Disclosure Scotland have reduced their revenue agency staff costs, it was previously envisaged that the number of agency staff in 2021/22 would be 15. However, this has not been reached, with 52 noted during the year.



### Capital spend

99. This year's non-cash budget allocation was underspent due to budgeted capital from January to March 2022 being based on a faster rate than has been achieved. At the Spring budget revision, Disclosure Scotland were allocated an additional budget of £1.1million, resulting in a capital budget of £6.7million. Following that £0.8million of the underspend in the year was released back to the Scottish Government.

100. The actual spend was £5.6million, therefore underspending the budget by £1.1million against the revised budget, but £3.3 million against the original capital bid. It means Disclosure Scotland has to now deliver its capital projects condensed within the same timescale which might prove challenging with its heavy reliance on external IT contractors.

101. Disclosure Scotland depends on external agency staff to deliver its IT and software infrastructure, including preparations for the Act implementation. In 2021/22 the Agency spent £5.6million on capital (£5.4million in prior year), and 95% of that cost was the agency contractors' time.

102. As highlighted with the capital underspend in the year, the progress made has been slower than previously

anticipated. This is further noted by the digital savings not being realised as the system is not developed enough for these savings to be achieved. Significant savings on IT spend are not forecasted to be made until mid-2023 at the earliest.

103. The challenges of IT staff recruitment accentuate this issue and therefore emphasises the requirement for a Capital Plan to be in place to consolidate these issues and centralise the strategy to ensure that progress can be made effectively.

## Budget setting

104. 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.
105. At the Disclosure Scotland level, overall staffing levels are agreed with the Director of Corporate Services and the Board and Leadership Team. Budget models are prepared separately on staff costs, expenditure, income, capital and then incorporated into an overall expenditure model.
106. A new monthly monitoring process was introduced in October 2021. This was a Programme, Project and Change Highlight Report. The purpose of the revised finance tool is to help project managers (if required) map out estimated project costs. This has been rolled out across all ongoing and new project/changes to record the actual spend against the estimated spend.

107. 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.

108. Overall, we conclude that there is scope for the budgetary process to improve, with greater focus on longer-term financial monitoring and further discussions with the Scottish Government are required to enable greater accuracy for financial planning.

## Systems of internal control

109. 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.
110. We have evaluated Disclosure Scotland's key financial systems and internal financial controls to determine whether they are adequate. We did not identify any other significant weaknesses in Disclosure Scotland's accounting and internal control systems during our audit.
111. We note that the Director of Corporate Services left the organisation in June 2021. Currently the Head of Finance and Analytical Services reports to the Director of Policy, Communications, Stakeholder Engagement and Finance

who is currently overseeing the finance team activities.

## Prevention and detection of fraud and irregularity

112. 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.
113. Disclosure Scotland, under the recommendation of Internal Audit, have prepared a Counter Fraud and Bribery Strategy. This has been developed to support the existing policy and is aligned to the DS25. The project vision is for Disclosure Scotland to have a leading Counter Fraud and Bribery process including a strategy, continual assessment of maturity and carrying out actions to ensure the maturity level is high.
114. The strategy outlines Disclosure Scotland's fraud and bribery strategic objectives and illustrates how performance over these objectives will be monitored. An action plan has been detailed which notes the strategic areas, the action involved and the target completion date. This provides a clear vision for how Disclosure Scotland will ensure it is able to achieve its strategy.

# Governance and transparency

A solid green horizontal bar spanning the width of the page, positioned below the section header.

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 improving and good overall.

Disclosure Scotland introduced new processes and structures to help with the delivery of its key objectives. These new arrangements included the development of a Change Delivery Framework and creation of Change Teams responsible for the key project delivery, with finance function representation in each team. Additionally, a Change Management Team has been established to provide a central advisory role.

Other positive enhancements to governance arrangements include establishment of a project register, piloting a change initiation matrix, implementing standardised change management reporting structures, monthly reporting cycles, skills assessment and utilising good practice from other public sector entities.

A People Strategy is in the process of development but not yet in place. We note the dynamic nature of Disclosure Scotland's workforce structure, including the use of Agency Staff and Contractors. The requirements associated with implementation of the new Act will also impact on the skills and capacity requirements of the Agency and implementation of an effective workforce strategy remains a priority.

Disclosure Scotland has appropriate risk management arrangements in place. Work has also been carried out on revising the Corporate Risk Register and aligning the work to the Risk Strategy which has been developed during the year.

## Governance and transparency

### Governance Arrangements

#### Current Governance structure



Source: Disclosure Scotland internal reports

115. Disclosure Scotland introduced new processes and structures to help with the delivery of its key objectives. These new elements include creating Change Delivery Framework and Change Teams responsible for the four key projects delivery, with finance function present in all of these. Additionally, a Change Management Team was established to provide a central advisory role.
116. Each Change Team has an associated Change Advisory Panel whose role is to provide advice, challenge and scrutiny to Change Teams and provide advice to the Leadership Team. The Change Advisory Panels consist of a mix of Non-Executive Directors, one of whom Chairs the Panel, and external subject matter experts.
117. Change Teams operate to govern and manage the day-to-day delivery of Disclosure Scotland Change Portfolio, supported by the new Change Management Team. In year one of DS25 a range of projects or change initiatives have been, or will be delivered, using the hurricanes.
- Office Reloaded
  - COP26
  - Recruitment and Resourcing Strategy
  - MI and Reporting
  - Operations Department Re-structure
  - Protection Unit workaround and reconciliation analysis and short-term solution
  - KPI and PI review
  - Telephony Replacement
118. 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.

119. Other positive enhancements to the governance arrangements include establishing a project register, piloting change initiation matrix, implementing standardised change management reporting structures, monthly reporting cycles, skills assessment and utilising good practice from other public sector entities.

120. At the centre of a lot of these structures and process is the Disclosure Scotland's Project Management Office, also responsible for disseminated good practice and driving the change.

121. This has been viewed as more effective, with finance now embedded across the change portfolio and the revised arrangements have established a clearer structure to Disclosure Scotland's governance procedures.

### Senior management changes

122. The following changes to senior management were made during the year:

- The Director of Corporate Services left the organisation in June 2021;
- The Head of Executive Office was appointed in August 2021 and became the Director of Chief Executive Office; and
- The Director of Policy, Communications, Stakeholder Engagement and Finance was appointed in April 2021.

123. As Disclosure Scotland begins to return to a business as usual approach, there are two key factors which have redirected the focus and encouraged a refresh of Business Continuity. These are:

- The piloting of hybrid working and the increasing number of staff now attending Pacific Quay
- COP 26 providing an opportunity to test out their arrangements and procedures for Disaster Recovery and identify opportunities to look at the current arrangements in place.

124. In response to the internal audit findings from 2020 in relation to business continuity plan work has been ongoing by the Corporate Governance team, carrying out exercises such as a gap analysis to compare key current arrangements against best practice and other public body models. This includes scheduling a robust testing plan and arranging training of key staff.

### Legislative and framework changes

125. 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.

126. On the 17th January 2022, Disclosure Scotland and Scottish Courts and Tribunal Services (SCTS) signed an agreement which provides them with access to the SCTS Criminal Online Portal. Disclosure Scotland now have direct access to court data which makes the evidence gathering process more efficient.

127. Disclosure Scotland's activities are also based on a Framework Document describing governance arrangements. The Agency reviewed the Framework in 2022 and updated it to reflect the revised governance arrangements.

### Board / Committee structures

128. The Chief Executive is supported by the Board which consist of five non-executive and four executive members. One non-executive's contract was extended during the year. In 2021/22 the key activities of the Board focused on: Office Reloaded Project, IT strategy, PASS performance, Change governance and programme priorities, business plan 2021/22, marketing of basic products and the COP26 project.

129. 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.

130. 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

131. 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.

132. Internal audit performed three assurance reviews, one advisory review and three follow up audits.

133. Internal audit provided a reasonable assurance opinion over Disclosure

Scotland's system of internal control for 2021/22, based on the results of the assurance reviews which provided substantial assurance for one and reasonable assurance for two of these reviews.

134. Through their work Internal Audit highlighted Disclosure Scotland's improved record in implementing audit recommendations, positive engagement with senior management, effectiveness of ARC and effective management and oversight of the Leadership Team.

135. Internal Audit's view is also that the risk management at the Agency and its governance arrangements improved significantly.

### Scottish Delivery Bodies Group

136. Disclosure Scotland is active member of the Scottish Delivery Bodies Group. As part of this they are engaging on work to enhance shared services.

137. Whilst Disclosure Scotland have shared services in areas such as HR and procurement a potential area which has been identified as an opportunity is Digital Resources, due to the challenges which are being faced across the public sector.

138. The shared services work has been identified as a key objective for the Director of Chief Executive Office in 2022/23.

### Risk management

139. 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.

140. 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.
141. Following an Internal Audit recommendation, Disclosure Scotland have developed a Risk Strategy. The Corporate Risk Management Strategy relates to the period 2022 to 2025 and is one of the ways which Disclosure Scotland aim to ensure they meet their objectives of the overall DS25 Corporate Strategy.
142. The Strategy outlines Disclosure Scotland's approach to identify, assess, address, review and report risks. There is also an explanation over the process of risk movement and illustrates how risk is categorised.
143. Updates to the corporate risk register ensure that the significant operational and financial challenges currently faced by the organisation are appropriately recognised within. Work has been carried out during the year on the Corporate Risk Register to ensure how risks are articulated and managed are consistent as well as confirming that the risks presented were of relevance and accurately reflected the key risks for the entity.
144. Disclosure Scotland have been upskilling many of their workforce. Whilst we have discussed the operational benefits this provides in the Value for Money Section, this is also important as it signifies that Disclosure Scotland are valuing their current workforce. Additionally, providing their workforce with career development opportunities is a valuable tool when focusing on staff retention.
146. The Strategic Workforce Planning Group will act as an advisory function, recommending suggested courses of action to the Leadership Team, and work to deliver these outcomes whilst ensuring the needs of the business are met. The Leadership Team will have final approval of the suggested courses of action before these are implemented. Outcomes will be reported to the Leadership Team on a regular basis.
147. There have been discussions taking place over incorporating the significant work being carried out on shared services, as per discussion in the Value for Money Section, into workforce planning. This will be an area of focus for Disclosure Scotland going forward.
148. In addition, a People's Strategy is currently being developed which will align with the workforce planning group. We would encourage the Agency's intention to develop an in-depth workforce plan which assesses the requirements of the organisations and addresses any recruitment requirements. This is particularly relevant as Disclosure Scotland continues to reduce their agency costs and increase their permanent employees.

### Workforce Planning

144. Whilst workforce planning has been ongoing during 2021/22, this has been more on a smaller scale and more on a department or project basis, without a holistic vision of the entire organisation.
145. It is important to acknowledge that during the year Disclosure Scotland

### Action Point 3

## Ukraine Applications

149. Disclosure Scotland have taken an active response towards the Ukraine appeal. To aid the housing situation, Disclosure Scotland have been carrying out free checks to ensure that those who are offering their homes to Ukrainian refugees have been appropriately verified.
150. The first set of Scottish Statutory Instruments (SSI) which came into force on 24 March 2022 in response to the Homes for Ukraine Scheme and the Scottish Government's role as a super sponsor. This allowed enhanced disclosures with suitability information relating to children and adults to be requested for individuals applying to be a sponsor and any other individuals over the age of 16 in the sponsoring household. There are two parts to the disclosure regime: state disclosure and self-disclosure.
151. The second set of SSIs which came into force on 12 May 2022 to allow enhanced disclosures with suitability information relating to children and adults to be requested for anyone offering to provide accommodation, where in their own home or a second property or holiday let, under the Homes for Ukraine Scheme.
152. As of 26<sup>th</sup> June 2022, 4,909 enhanced Disclosure Checks had been completed, with an average of 2.4 days taken to complete.
153. This has significantly contributed towards the Scottish Government's efforts to aid Ukraine during the on-going war and Disclosure Scotland has stepped up to help provide assurance for those in need.

## DS25 Strategy

154. Disclosure Scotland have been developing its DS 25 Corporate Strategy. The purpose of the Corporate Strategy is to set out the vision of how Disclosure Scotland will overcome any future challenges and play its part in the national recovery from the coronavirus pandemic.
155. Considerable work has been done on the Corporate Strategy and ensuring that the corresponding strategies such as the Risk Management and IT Strategies are aligning with the key objectives. However, there does not appear to be a comprehensive long term financial strategy in place which appropriately assesses the financial implications going forward.
156. Whilst we acknowledge that financial forecasting is challenging due to the high reliance on the funding received by the Scottish Government, to ensure that Disclosure Scotland have considered future financial implications, we would recommend that there is a corresponding financial plan, which aligns to the DS 25 strategy. Additionally, this was allow for more in depth reporting over the financial updates that are given to the Board as it will highlight areas where variances have arisen and if circumstances change then these regular financial updates will indicate that the long term financial plan will be required to be revised. We included this recommendation in Action point 1.

## Fairness and Equality

157. Disclosure Scotland outlines its commitment to equal opportunities within their Corporate Strategy: DS25. These include:

- Equal Pay
  - Adhering to the Equality Act 2010 and associated policies within Scottish Government
  - Inclusive culture, leadership and recruitment training has been offered to all colleagues across Disclosure Scotland
  - Development of policies relating to the Ukraine Sponsorship Scheme, Age of Criminal Responsibility
  - Following the Scottish Government's equal opportunities and diversity policy.
158. Disclosure Scotland is required to report on progress made against these equality outcomes at least every two years as part of the Scottish Government Equality Mainstreaming report. The latest Mainstreaming Equality Report was published in April 2021 and is available on the Scottish Government's website.
159. In August 2021, the Agency established a Stakeholder Engagement Group, devising the membership from a wide range of stakeholders to ensure different perspectives are incorporated to shape future design and delivery of services as the Disclosure (Scotland) Act 2020 is implemented. For example, group members include organisations representing care experienced people, those in secure care, people with convictions and disabled employers.
160. Disclosure Scotland uses equality and diversity information provided via the eHR system and analyses data provided by the CAST Team in Scottish Government to inform decisions and carry out equality impact assessments.
161. Disclosure Scotland encourage their staff to update their diversity information on a regular basis. To promote opportunities for its staff, all vacancies and Temporary Responsibility Supplement (TRS) opportunities are marketed internally in the first instance. Additionally, multiple staff within Disclosure Scotland participate in the mutual mentoring programme, as mentors and mentees.
162. A new Strategic Workforce Planning Group is currently being established in and part of their remit will be to monitor and report on workforce data, which will include data on diversity.
163. We are satisfied that appropriate arrangements appear to be in place to oversee and report on delivery of Disclosure Scotland's equality outcomes.

# Value for money

A solid green horizontal bar spanning the width of the page, positioned below the section header.

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 significantly improved from the prior year (78.95%) to 98% above the target of 90% applications processed within 14 days. This was largely due to PASS performance improvements, staff upskilling and more efficient process improvements. Disclosure Scotland has prepared 'lessons learned' analysis reports for the Board and undertaken a number of initiatives to improve performance.

Disclosure Scotland are currently carrying out a refresh of the Performance Framework and revising their KPIs with the initial recommendations planned to be presented to the Board in September 2022. This should enable the performance management framework to more clearly align with the new strategy (DS 25) and revised business plans.

Disclosure Scotland consistently out-performs its processing targets for applications. Whilst this outcome is positive, it may also indicate that the Agency has more processing capacity than is needed to meet its targets. We note that the Agency has not yet established its processing capacity (e.g. what volume of applications is the Agency capable of processing whilst continuing to meet key performance targets) and is not yet able to fully demonstrate that it is operating efficiently.

Disclosure Scotland has spent around £11.3 million in the last three years on agency IT staff to deliver its capital projects with the expectation of continuing reliance on agency staff for the foreseeable future. More could be done to demonstrate the Agency's assessment whether this model of delivery represents value for money.

## Performance in 2021/22

164. Disclosure Scotland had an objective in 2021-22 to provide an efficient and accurate service that meets customers' expectations and needs. During the year, there was an increase in applications by 31,000 from the forecasted figure of 581,036. Despite this unexpected rise, the performance at 31 March 2022 was 98% of applications completed within 14 days. This with an average processing time of 6.58 days while receiving 5.6% more applications than forecast.
165. Disclosure Scotland are, therefore, able to operate at a much higher capacity than the processing target KPI level. However, more could be done to understand the total volume of applications that could be processed whilst still meeting KPI processing targets in order to fully understand processing capacity and potential efficiency opportunities.
- Action Point 4**
166. The proportion between the Business as Usual (BaU) and the Covid Applications has shifted in the year. This is due to the Covid applications being a key priority in the prior year and the increased need for these types of applications.
167. As per seen in the table below, the proportion of Covid applications in the prior year was 33.81%, whereas in the current year it is only 10.69%. This has led to a substantial increase in Disclosure Income in 2021/22 of £15.5million, compared to £9.0million in 2020/21. The 2021/22 income is closer to the pre-pandemic levels which were c.£15 million annually.
168. The Covid free applications were in place throughout 2021/22. However, as of 24<sup>th</sup> June 2022 these applications have been stopped.
169. The average processing time for all applications was 5.3 days with 98.5% of applications completed within 14 days. The improvement in performance was caused by the reduction in IT issues, move to remote working, seasonal higher demand in PVG application and prioritising Covid-free applications. Therefore, Disclosure Scotland exceeded its public performance target of 90%. Covid-free applications were prioritised, with an average processing time of 3.0 days with 99.3% of applications completed within 14 days.

## Summary of the performance

Application type	Applications completed		Average processing time (days)		% processed within 14 day target	
	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21
Basic/Standard/Enhanced	317,000	271,000	4.5	8.8	99.3%	78.5%
COVID	24,000		2.7		99.0%	
BAU	293,000		4.7		99.2%	
PVG	293,000	211,000	6.0	9.4	97.7%	79.3%
COVID	38,000		3.2		99.1%	
BAU	255,000		6.5		97.5%	
<b>Total</b>	<b>611,000</b>	<b>482,000</b>	<b>5.3</b>	<b>9.1</b>	<b>98.5%</b>	<b>78.9%</b>
COVID	63,000		3.0		99.3%	
BAU	548,000		5.5		98.4%	

## Digital work update

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

- Informatica Identify Resolution (IIR) upgrade;
- Completing the first phase of user research for the ID&V facial recognition and validation technology;
- Creating a development environment on the new platform; and
- Recruiting for Digital Roles.

171. During the year, significant work has been carried out to improve the operational efficiency of the PASS System. It was found that the Business Process Management response times have improved by 73% on baseline week, a saving to the business of 140-160 hours per weekday. This translates to 34% improvement in overall productivity for

agents, and 25% increase in dispatch of certificates to customers.

172. This increase in productivity for agents is instrumental towards improving Disclosure Scotland's financial performance. Due to the significant unexpected expenditure incurred on the PASS implementation, agency costs have been substantial in the last few years. Therefore, this information indicates the reducing need for the high agency staff costs. For example, in the prior year the head count for Agency staff (FTE) was 80 whereas in the current year this figure is 52.

173. Moreover, there has been a reduction of Agency Costs in the year of £1.8million. Less reliance on Agency staff also reflects the reduction in manual workarounds now required for processing applications.

174. The key factors which have contributed to improve processing times include improved resource planning during the year. Additionally,

there have been significant upskilling of operational staff; particularly in application processing and vetting which has improved operational efficiency. As these individuals have received the relevant training, many are able to carry out multiple roles to fill any temporary gaps in workforce or particularly busy areas.

175. There has been a revised structure in the application processing which has created a more streamlined process. The upgrades which have been made to the PASS system have also aided the processes and improved efficiency.
176. We also note that Disclosure Scotland still heavily relies on the external IT staff delivering its capital programme and this spend was c.£5.1 million in 2021/22 (£4.4 million in 2020/21). This cost is expected to remain in place annually over the next two years and forecasted to reduce to £3.5 million p.a. from 2024-25 when the new legislation is implemented.
177. Disclosure Scotland spent around £11.3 million in the last three years on contractors IT staff to deliver its capital projects. With the expectation of this cost continuing for the next two years and at a reduced, but still high level following that period, more could be done to assess if this model of delivery provides value for money.

### Action Point 5

#### PVG online

178. During the year, a benefits review was carried out on the PVG Online Programme. The key expected benefits of PVG Online are:
- Improve Customer Experience
  - Improve Business Processes

- Increase Scottish Government Digital Ambitions.

179. To measure these expected benefits, the following indicators will be applied: Cost, Quality data, Performance data and Risk reduction.
180. Disclosure Scotland reported on benefits realisation from PVG improvements last year as highlighted in our report from prior year. It has also implemented benefits measurement into its capital projects reporting.

#### KPI Project

181. Currently, Disclosure Scotland do not have a core suit of tools or a robust reporting framework which demonstrates performance in a strategic outlook. Therefore, Disclosure Scotland have been working towards delivering a suit of meaningful KPI's which can be used as a tool for reporting purposes. The aim of this is to have revised KPIs and Performance Target which will be aligned with the implementation of the Disclosure (Scotland) Act.
182. The KPI measurements have not been reviewed in a number of years and the work carried out currently aims to ensure that the KPIs are an accurate representation of performance. The new KPIs will be aligned with the Business Plan 2022, which will allow the future Digital cloud-based reporting to align with the DS25 Strategic Goal.
183. An options appraisal was carried out to assess the optimum method to review the KPIs. The option chosen was a "single source of truth" performance reporting tool (Balanced Scorecard) internally based on Operational, Customer and Corporate

requirements. The revised performance tool has been expected to be delivered by September 2022.

184. Progress will be monitored through monthly updates provided to the Leadership Team and quarterly updates to the Board to present an update on progress towards achieving these objectives.

### Shared Services

185. Disclosure Scotland is in regular communication with the wider Scottish Government shared services programme, looking to identify ways to transform the service currently provided. As mentioned in the Governance and Transparency Section, this is an area of importance for Disclosure Scotland.
186. During the year there has been discussions at the Scottish Delivery Bodies Group which has identified opportunities to drive this forward.
187. Due to the resourcing challenges which are being experienced in various government disciplines, exploring shared services in more depth can help aide planned and unplanned activity, providing both operational and financial efficiencies.
188. Various shared services have been established by Disclosure Scotland including shared HR resources; shared procurement resources; and Disaster Recovery.

# Appendices

---

---

Appendix 1: Respective responsibilities of Disclosure Scotland and the Auditor	52
Appendix 2: Action Plan	56
Appendix 3: Follow up of prior year recommendations	62

---

## 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
<b>Corporate governance</b>	<p>Disclosure Scotland, through its chief executive (as accountable officer) is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
<b>Financial statements.</b>	<p>Disclosure Scotland has responsibility for:</p> <ul style="list-style-type: none"><li>• 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;</li><li>• 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;</li><li>• ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;</li><li>• maintaining proper accounting records; and</li><li>• 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, balanced and understandable and also address the longer term financial sustainability of Disclosure Scotland.</li></ul>

Area	Disclosure Scotland responsibilities
	<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><b>Standards of conduct for prevention and detection of fraud and error</b></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><b>Financial position</b></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"> <li>• Such financial monitoring and reporting arrangements as may be specified;</li> <li>• Compliance with statutory financial requirements and achievement of financial targets;</li> <li>• Balances and reserves, including strategies about levels and their future use;</li> <li>• Plans to deal with uncertainty in the medium and long term; and</li> <li>• The impact of planned future policies and foreseeable developments on the financial position.</li> </ul>
<p><b>Best value</b></p>	<p>Accountable officers have a specific responsibility to ensure that arrangements have been made to secure best value.</p>

## 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 Annual 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.

### Audit and non-audit services

The total fees charged to Disclosure Scotland for the provision of services in 2021/22 (with prior year comparators) is as follows:

	Current year £	Prior year £
Audit of Disclosure Scotland (Auditor remuneration)	46,940	45,020
<b>Total audit</b>	<b>46,940</b>	<b>45,020</b>
Non-audit services	-	-
<b>Total fees</b>	<b>46,940</b>	<b>45,020</b>

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 since appointment can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202122>

## 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**

## Action Point 1 - Accuracy of Financial Planning

**Observation** We note that the Long-Term Financial Strategy, produced in 2020, was not relied upon as it was not feasible.

There has been a significant underspend in the Revenue DEL of £5.1m. Whilst this has been largely attributed to the unpredicted increase in revenue, the overall underspend of £6m, including the capital underspend, this indicates the need for a more detailed monitoring budget process to be implemented.

**Implication** Inaccurate financial planning may lead to challenges in financial management and may lead to inefficient spending.

**Recommendation** 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.

**Rating** **Other deficiency**

**Management response** 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.

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%.

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.

Future Cost models have already been prepared as part of the fee project.

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. 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.

The RDEL Capital underspend had nothing to do with the Income and Expenditure of DS but with the availability of IT consultants.

**Responsible Officer:** Director for Policy, Communications, Stakeholder Engagement and Finance

**Implementation Date:** March 2023

## Action Point 2 – Future Delivery Model

**Observation** During the past year, there has been a delay in terms of selecting and applying a specific fee and operating model. While this is not entirely within sole controls of Disclosure Scotland we would have expected that the Agency presents the options for consultation with the Scottish Government and other stakeholders to support effective medium term financial planning and align it with the delivery of the Act.

**Implication** There is the risk that effective financial modelling will be able to be established if Disclosure Scotland do not have the adequate information to implement a comprehensive financial forecast.

**Recommendation** To aide this 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.

**Rating** **Other observation**

**Management response** 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. 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.

**Responsible Officer:** Director for Policy, Communications, Stakeholder Engagement and Finance

**Implementation Date:** Implementation is dependent on Ministerial timetable.

### Action Point 3 - Workforce Plan

**Observation** We note that currently Disclosure Scotland do not have a holistic People Strategy in place.

**Implication** Particularly with the changing requirements of the organisation and the proportions of permanent and agency staff, without a formalised plan in place there is the risk that the needs of the organisation going forward will not be met.

**Recommendation** 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.

**Rating** **Other observation**

**Management response** 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.

**Responsible Officer:** Director of Chief Executive Office

**Implementation Date:** March 2023

#### Action Point 4 - Efficiency Opportunities

<b>Observation</b>	Disclosure Scotland have been performing well during the year and exceeding their processing targets.
<b>Implication</b>	This indicates potential areas where there is overspending incurring, in relation to over staffing. This could impact on value for money.
<b>Recommendation</b>	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.
<b>Rating</b>	<b>Other observation</b>
<b>Management response</b>	<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><b>Responsible Officer:</b> Deputy Chief Executive, Operations and Strategic Change Implementation</p> <p><b>Implementation Date:</b> KPI Project is ongoing and in line with Act implementation work changes will align with 2024 date.</p>

## Action Point 5 – Capital Delivery Model

<b>Observation</b>	Disclosure Scotland has spent around £11.3 million in the last three years on agency IT staff to deliver its capital projects with the expectation of continuing reliance on agency staff for the foreseeable future. More could be done to demonstrate the Agency’s assessment whether this model of delivery represents value for money.
<b>Implication</b>	There is the risk that the organisation is not reviewing the current model of the delivery to consider all options in support of value for money.
<b>Recommendation</b>	We would recommend that the current model of delivery of the capital project is assessed.
<b>Rating</b>	<b>Other observation</b>
<b>Management response</b>	<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><b>Responsible Officer:</b> Deputy Chief Executive – Digital</p> <p><b>Implementation Date:</b> December 2023</p>

## Appendix 3: Follow up of prior year recommendations

### Budget setting

<b>Observation</b>	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.
<b>Implication</b>	Lack of budget certainty can make in the year planning and financial control inefficient.
<b>Recommendation</b>	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.
<b>Management Response</b>	<p><b>2020/21 response</b></p> <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><b>Responsible Officer:</b> Director of Policy, Customer Engagement and Communications</p> <p><b>Implementation Date:</b> Winter 2021</p> <p><b>2021/22 update:</b></p> <p>We engaged with SG regarding budgeting process. We have improved our financial reporting at a project level, we have business cases for our projects that set out financial costs. We continue to remodel our forecasting of volumes based on the evidence we gather i.e. information from employment sectors etc. Our Head of Strategic</p>

Finance has been working closely with digital colleagues to review and amend where necessary any budget forecasting.

**Rating**

**Other Observation**

**Complete**

### 189. Strategic Finance long term plan

**Observation** 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.

**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**

**2020/21 response**

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.

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.

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.

**Responsible Officer:** Director of Policy, Customer Engagement and Communications

---

**Implementation Date:** Winter 2021

**2021/22 update:**

The Head of Strategic Finance was recruited in April 2022. This recruitment started September in the previous year, however, we were unable to secure a suitable candidate until April. Part of their remit is to review the medium and long term financial strategy for the organisation.

---

<b>Rating</b>	<b>Other Observation</b>
<b>Ongoing</b>	<p>The savings proposed by the Strategic Finance Plan were deemed by the Leadership Team as unachievable. This was due to the paper being of a very optimistic view, particularly in relation to the speed of digitalisation.</p> <p>There is no current Strategic Finance Plan in place.</p>

---

## Capital plan

**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.

**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**

**2020/21 response**

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.

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.

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 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:** Director of Digital and Service Owner

**Implementation Date:** Winter 2021

---

Rating	Other Observation
Complete	

---

