

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF
THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2010/11 AUDIT OF DISCLOSURE SCOTLAND

1. I have received the audited accounts of Disclosure Scotland for the year ended 31st March 2011. The auditor has provided an unqualified audit opinion on the accounts but has included an emphasis of matter paragraph to draw attention to uncertainty surrounding the £21.3 million valuation of an IT system in the financial statements.
2. I submit these accounts and the auditor's report in terms of section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.
3. Auditors include an emphasis of matter paragraph to refer to an issue that is appropriately presented or disclosed in the financial statements and is, in the auditor's judgement, of such importance that it is fundamental to a user's understanding of the financial statements. Note 8 to the financial statements and the Statement on Internal Control refer to the transfer of IT assets from the Scottish Government to Disclosure Scotland to support the introduction of the Protecting Vulnerable Groups legislation.
4. The performance of these assets fell significantly short of the standard anticipated and created uncertainty as to the appropriate value of the assets. Disclosure Scotland considered the valuation of the IT system as an asset and concluded that because an immediate recovery plan was in place an impairment review was not necessary at that stage. The asset is therefore valued in the financial statements at the cost transferred less one month's depreciation. The auditor considered that the action taken by Disclosure Scotland was pragmatic and proportionate but that an emphasis of matter paragraph in the audit report was appropriate because of the degree of judgement involved in the accounting treatment used in valuing of a significant asset within Disclosure Scotland's accounts.
5. The Protecting Vulnerable Groups arrangements were designed to strengthen the disclosure regime. In parallel with bringing forward the legislation, the Scottish Government procured an IT system to support the new arrangements. The new system was designed to build on the existing arrangement which involves an external organisation providing the IT infrastructure and processing transactions with Disclosure Scotland staff carrying out the vetting process. The new IT system was transferred from the Scottish Government to Disclosure Scotland on the introduction of the new arrangements in February 2011. The Chief Executive of Disclosure Scotland took on the Senior Responsible Officer role for the project in June 2011.
6. The system did not perform as Disclosure Scotland would have expected when it went live. The problems were acknowledged by the external provider who deployed their Rapid Response Unit to assess the situation and establish and implement a recovery plan including a clear set of outcomes against which progress will be monitored. Disclosure Scotland considers that the system is improving and will assess whether the outcomes it expects from the Protecting Vulnerable Groups arrangements have been achieved in November. Subject to further work, transfer of basic disclosures to the new system will begin in Spring 2012.
7. A milestone payment due to the external provider when the system went live was withheld and will be reconsidered in the autumn taking account of progress made with the IT system at that date. The costs of the recovery plan are being met by the external

provider. Disclosure Scotland considers that, if the recovery plan is achieved, the asset value will be confirmed.

8. Disclosure Scotland will continue to monitor the implementation of the recovery plan in 2011/12 and will use this information to review the recorded value of the IT system for the 2011/12 financial statements, including the possible need to reduce the value of the IT system and, if so, seek to obtain the necessary resource budget cover.
9. The issues raised about the new IT system at Disclosure Scotland are similar to issues raised by other public bodies in their accounts for 2010/11. I will produce reports to be laid with the accounts of each these bodies individually. I have also asked Audit Scotland to bring forward proposals in the current forward programme of performance audit studies to produce a wider report on outsourced contracts.



Robert W Black
Auditor General for Scotland