

General Register Office for Scotland

Report on the 2006-07 Audit

14 September 2007

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Executive Summary

Introduction

We have audited the financial statements of General Register Office for Scotland (GROS) for 2006-07 and examined aspects of performance and governance arrangements. This report sets out our key findings and discharges our responsibilities under ISA260 - reporting matters arising from our audit to those charged with governance.

Financial Statements

We have given an unqualified opinion on both the financial statements for 2006-07 and on the regularity of transactions undertaken during the financial year.

The Operating Cost Statement for the year records net expenditure of £7.641 million against a budget of £8.089 million. The budget underspend of £0.448 million resulted from higher than expected income from online sales and lower than expected expenditure on IT consultancy.

GROS incurred capital expenditure of £0.243 million against a budget of £0.718 million. The underspend has largely resulted from a delay in the digitisation project for the 1911 Census and the National Health Service Central Register.

The 2006-07 outturn for both capital and revenue continues the trend of underspends against budget reported by GROS in previous years. We recognise that GROS has improved its budget setting and monitoring arrangements in recent years, but more work remains to be done to improve budget performance.

During 2006-07, GROS undertook a refurbishment of Ladywell House, which included the creation of a space for a gym in the basement for the benefit of employees. The costs of the refurbishment programme were charged to revenue, although it is our view that they are capital in nature. The total value at £98,000 is not considered material to the accounts, and is reported as an unadjusted difference.

We have recommended that GROS evaluate all major maintenance programmes against the requirements of FRS15 when setting future capital and revenue budgets.

We noted that there was an unreconciled difference between the purchase ledger control account and the trial balance at the year end. We have recommended that this variance is investigated and cleared.

Governance

We found that governance arrangements operated well and within a generally sound control environment. GROS complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to its role. We identified a small number of areas for improvement in overall governance arrangements.

Our review of internal audit arrangements found that the internal auditors complied with the requirements of the Government Internal Audit Manual, and we were able to place reliance on their work.

Performance

We carried out an overview of arrangements in relation to the duty to deliver best value and efficiency in its operations. Our review found that GROS has not yet developed a formal approach to measuring continuous improvement that can be embedded in the corporate planning and reporting cycle.

The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Accountable Officer to decide the extent of the internal control system appropriate for the management of GROS.

Status of our Report

This report is part of a continuing dialogue between GROS and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in systems and work practices at GROS.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in this review for their assistance and co-operation.

Grant Thornton UK LLP

14 September 2007

Financial Statements

Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of GROS as at 31 March 2007 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers; and
- in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

We have given an unqualified opinion on the financial statements of GROS for the 2006-07 financial statements. We are able to conclude that the financial statements give a true and fair view of the financial position for the period from 1 April 2006 to 31 March 2007 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260 and outcomes against the requirements of the Standard are contained in Appendix B. Under ISA260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in Table 1 below:

Table 1: ISA260 Reporting

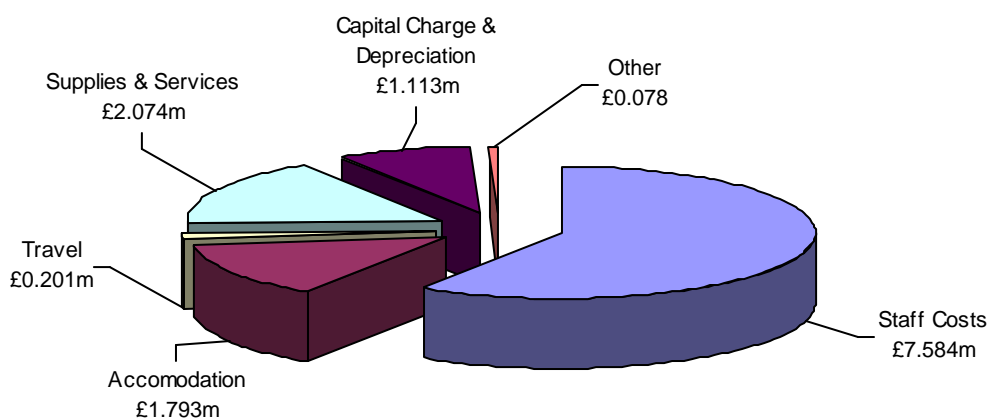
Area	Key Messages
Independence and objectivity of the audit team	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> • we are independently appointed by Audit Scotland; • we comply with the Auditing Practices Board's Ethical Standards; and • we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.
Quality of the Accounts	<p>The draft financial statements were presented for audit on 6 July 2007 in line with agreed deadlines, and the supporting working papers provided were of a good standard. We have recommended that a file containing all supporting working papers for the financial statements should held centrally to improve operational efficiency for the 2007-08 audit.</p>
Approach to the audit	<p>Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; and • during the 2006-07 financial year, we performed audit work on the core financial systems in operation at GROS. Our work did not identify any specific control weaknesses in the financial systems operated by the GROS that we need to draw to the audit committee's attention.
Accounting policies and practices	<p>GROS has adopted appropriate accounting policies in accordance with the Government Financial Reporting Manual (FRoM) in the areas covered by our testing.</p>
Material risks and exposures	<p>The Accountable Officer has considered and confirmed that GROS has no material risks and exposures which should be reflected in the financial statements. The Accountable Officer is asked to confirm this in the Letter of Representation</p>
Audit adjustments and unadjusted errors	<p>We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. The Accountable Officer has agreed to adjust the accounts.</p>

The key matters arising from the audit are:

Financial Performance

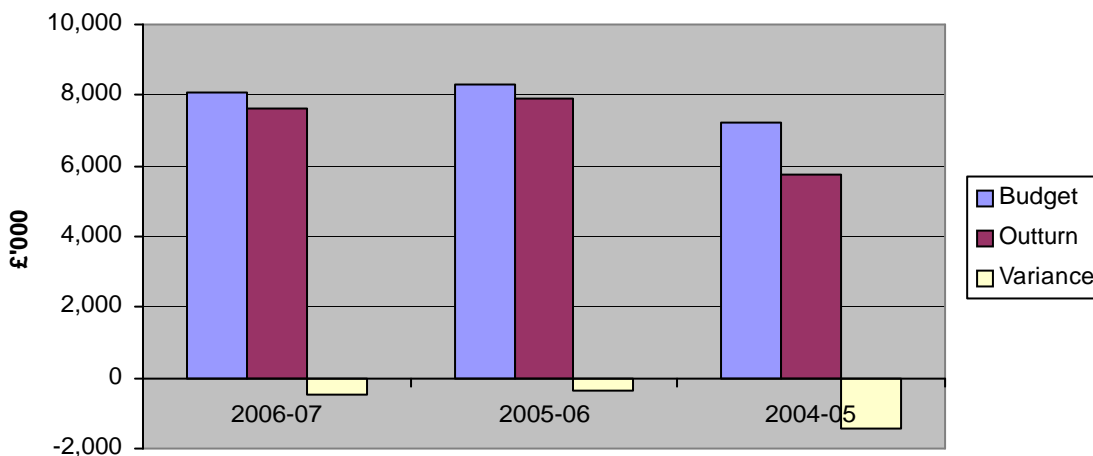
The Operating Cost Statement for the year records net expenditure of £7.641 million against a budget of £8.089 million. The budget underspend of £0.448 million resulted from higher than expected income from online sales and lower than expected expenditure on IT consultancy. Staff costs account for 59% total expenditure with supplies and services (16%), accommodation charges (14%), capital charges (9%) and other costs (2%) making up the remainder. A more detailed analysis of GROS's 2006-07 revenue expenditure is shown in figure 1 below:

Figure 1 - Analysis of 2006-07 Revenue Expenditure



GROS incurred capital expenditure of £0.243 million against a budget of £0.718 million. The underspend resulted largely from a delay in the digitisation project for the 1911 Census and the National Health Service Central Register. GROS were overly ambitious when estimating the likely costs and implementation timescales for this and other significant IT projects. The 2006-07 outcome for both capital and revenue continues the trend of underspends against budget reported by GROS previous years as shown by Figure 2 below:

Figure 2 - GROS - Analysis of Budget Outturn 2004-05 to 2006-07



Refer action plan point 1

Ladywell House

During 2006-07, GROS undertook a refurbishment programme of Ladywell House, which included the creation of a space for a gym in the basement for the benefit of employees. The costs of the refurbishment programme were charged to revenue. In assessing the costs of the refurbishment programme against the requirements of Financial Reporting Standard 15 (Tangible Fixed Assets), it is our view that some of these costs are capital in nature. The total value at £98,000 is not considered material to the accounts, and is reported as an unadjusted difference.

We have recommended that GROS evaluate all major maintenance programmes against the requirements of FRS15 when setting future capital and revenue budgets.

Refer action plan point 2

Purchase Ledger Control Account

We noted that there was an unreconciled difference of some £7,147.18 between the purchase ledger control account and the trial balance at the year end. GROS should ensure that any differences are reconciled promptly to reduce the risk of errors or discrepancies in the purchase ledger. The value of the difference was not considered material to the accounts and has not been adjusted.

Refer action plan point 3

Financial Reporting Manual

GROS are required to present their accounts in line with the requirements of the FReM. Our review of the draft accounts identified a number of changes that were required in order to ensure the accounts complied with FReM disclosure guidelines:

- the completion of a Remuneration Report in the foreword of the accounts;
- a statement in the foreword to confirm that the Accountable Office has provided all necessary audit information to the external auditors;
- the inclusion of an intra government debtors and creditors note;
- the inclusion of the basis of apportionment for the Statement of Resources by Departmental Aims and Objectives; and
- the inclusion of the financial objectives and performance against financial objective for each service provided.

Refer action plan point 4

Accounts Direction

Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 requires GROS to compile their accounts as directed by the Scottish Ministers. Our audit identified that GROS had included an out of date Accounts Direction from 15 July 2002 in its draft accounts 2006-07 accounts and in its signed 2005-06 accounts.

GROS had been issued with a revised Accounts Direction on 17 January 2006 to take account of changes emerging from the newly issued Government Financial Reporting Manual. The correct Accounts Direction has now been included in the finalised accounts.

Refer action plan point 5

Remuneration Report

The FReM requires central government bodies to disclose salary and allowances of senior staff (defined as "persons in senior positions having authority or responsibility for directing or controlling the major activities of the entity") in a Remuneration Report, to be included in the foreword to the accounts. GROS has included the salaries and allowances of the Registrar General and Deputy Registrar General, but there has been no disclosure for other members of senior management, including the Head of Corporate Service who is the Accountable Officer for GROS.

We do not consider this to be a material omission from the accounts, but we recommend that GROS consider the need for a wider disclosure in 2007-08.

Refer action plan point 6

Summary of accounting adjustments

Table 2: Summary of adjusted differences

	Income & Expenditure account		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
An invoice relating to 2007-08 expenditure incorrectly accrued in the 2006-07 financial year.			198	198

Table 3: Summary of unadjusted differences

	Income & Expenditure account		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
In our view, some of the costs associated with the refurbishment of Ladywell House should be classified as capital.		98	98	
Unreconciled difference between the purchase ledger control account and the trial balance	7			7

Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that:

- the Statement complies with Scottish Executive guidance;
- that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate; and
- that the contents of the Statement are consistent with the information emerging from our normal audit work.

Standard of accounts and supporting papers

The draft financial statements were presented for audit on 6 July 2007 in line with agreed deadlines and the supporting working papers provided were of a good standard. We have recommended that a central file of all supporting working papers are held centrally to improve operational efficiency for the 2007-08 audit.

Refer action plan point 7

A number of presentational amendments to the draft financial statements were recommended and accepted by management during the audit process. These changes are reflected in the final draft financial statements presented to the audit committee. The changes relate to the inclusion of disclosures required by the Government Financial Reporting Manual.

Governance

Introduction

As part of our 2006-07 audit, we assessed the adequacy of GROS's governance arrangements against good practice standards for the public sector. We examined:

- the structures and processes for decision making;
- risk management and systems of internal control;
- arrangements for the prevention and detection of fraud and irregularities;
- standards of conduct, integrity and openness; and
- reporting arrangements and monitoring of GROS's overall financial position.

Corporate governance arrangements

We reviewed and reported on aspects of GROS's corporate governance arrangements in our Interim Management Report. We found that GROS's corporate governance arrangements operated well and within a generally sound control environment. GROS complies with the good practice guidance in relation to governance as outlined in the Scottish Public Finance Manual.

We identified eight performance improvement observations and management has agreed an action plan to address the issues identified.

Key controls

We reviewed and reported on the existence and operating effectiveness of key financial controls in our Interim Management Report. Our review covered the following systems: income and accounts receivable, fixed assets management, expenditure and accounts payable and the general ledger. We found that the systems of internal control are generally operating effectively.

Internal audit

The Scottish Executive Internal Audit Service provided internal audit services to GROS for the year ending 31 March 2007. We reported in our Interim Management Report the results of our review of internal audit arrangements. Our review concluded that internal audit complied with the requirements of the Government Internal Audit Standards, and we were able to place reliance on their work.

Performance

Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit, we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

Best value

GROS has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources. A review of best value arrangements for GROS was issued in 2005-06, which reported that GROS had already implemented many of the best value principles in its operations, with the main weaknesses reported in the approach to option appraisals in procurement, and sustainable development.

Following the 2005-06 review, GROS established an action plan to address the findings of the review. The main actions taken include the establishment of a Sustainable Development and Environmental Management Policy, and extensive updating of the Purchasing and Procurement Regulations to make option appraisals more explicit.

In addition, the Head of Corporate Services is a member of the Scottish Executive group established to re-launch Best Value in the Scottish Administration and was involved in the preparation of best value guidance published in May 2006. During 2006-07, senior managers were given a seminar on best value as part of the 2007-08 planning process.

Our review found that GROS has not yet developed a formal approach to measuring continuous improvement that can be embedded in the corporate planning and reporting cycle.

Refer action plan point 8

Grant Thornton UK LLP

14 September 2007

Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Financial Performance					
1	GROS underspent against both its capital and revenue budgets and this continues the trend of underspends identified in previous years.	Medium	GROS should review its arrangements for capital budgeting and monitoring in light of recent experience. In particular, GROS should be more realistic when estimating timescales and in-year budgets for major capital projects.	Agreed For 2007-08 we had already revised our planning and budgeting arrangements. This involved greater prioritisation and more scrutiny by senior management, and should result in more realistic planning and more accurate budgeting.	February 2007 Action: Duncan Macniven, Registrar General and Eddie Turnbull, Head of Corporate Services
Ladywell House					
2	Enhancement works on Ladywell House have been incorrectly charged as revenue.	Medium	GROS should evaluate all major maintenance programmes against the requirements of FRS15 when setting future capital and revenue budgets.	Agreed We will consider the requirements of FRS15, and will consult with the Scottish Government's Estates Manager and our Accommodation Advisor (a shared service from the National Archives of Scotland) when planning major accommodation programmes.	September 2007 Action: Brian Finnie, Finance and Accommodation Manager
Purchase Ledger Control Account					
3	There was an unreconciled difference of about £7,000 between the purchase ledger control account and the trial balance at the financial year end.	Low	GROS should ensure a year end reconciliation is carried out between the ledger and purchase control account. The identified variance at the financial year end should be investigated and cleared.	Agreed We will introduce a monthly reconciliation which should pick up anomalies at an earlier stage, when resolution should be simpler.	September 2007 Action: Brian Finnie, Finance and Accommodation Manager

No	Finding	Risk	Recommendation	Management Response	Implementation date
Financial Reporting Manual					
4	Our review of the draft accounts identified a number of changes that were required in order to ensure the accounts complied with FReM disclosure guidelines.	Low	GROS should undertake a supervisory review of the financial statements prior to submission to audit to ensure they meet all disclosure requirements outlined in the FReM.	Agreed A quality assurance review will take place in the Scottish Government's Corporate Reporting, Accountancy and Governance (CRAG) Division, in addition to a review by GROS's Strategic Finance Manager. We plan to carry out a complete review of the format of our Accounts for 2008-09 by January 2008.	March 2008 Action: Craig Stewart, Strategic Finance Manager and Derek Glover, GROS Accountant (SG – CRAG)
Accounts Direction					
5	Our audit identified that GROS had included an out of date accounts direction from 15 July 2002 in its draft accounts 2006-07 accounts and in its signed 2005-06 accounts.	Low	GROS should contact the Scottish Executive to ensure a mechanism is in place to inform it when its accounts direction is revised.	Agreed We are on the circulation list for Finance Guidance Notes which provide updates to the Scottish Public Finance Manual. We will also carry out a check of updates before preparing the accounts.	March 2008 Action: Craig Stewart, Strategic Finance Manager and Derek Glover, GROS Accountant (SG – CRAG)
Remuneration Report					
6	GROS includes the salaries and allowances of the Registrar General and Deputy Registrar General in its remuneration report, but the details of other members of senior management, including the Accountable Officer, are not disclosed.	Low	GROS should consider whether the current level of disclosure within its remuneration report is adequate in advance of completion of the 2007-08 draft accounts.	Agreed The 2007-08 accounts will contain disclosure entries for all Heads of Division and the Registrar General. All current post-holders have agreed to this.	August 2007 Action: Eddie Turnbull, Head of Corporate Services

No	Finding	Risk	Recommendation	Management Response	Implementation date
Accounts Working Papers					
7	Working papers supporting the draft financial statements were of a good standard, but there is no centrally held file containing all working papers.	Low	A file containing all supporting working papers for the financial statements should be held centrally to improve operational efficiency for the 2007-08 audit.	Agreed All supporting papers will be brought together for audit scrutiny.	April 2008 Action: Craig Stewart, Strategic Finance Manager and Brian Finnie, Finance and Accommodation Manager
Best value					
8	Our review found that GROS has not yet developed a formal approach for measuring continuous improvement that can be embedded in the corporate planning and reporting cycle.	Medium	GROS should set out a more formal plan on how it intends to measure, monitor and report on the achievement of best value and efficiency going forward.	Agreed This will be addressed in the 2008-11 planning round starting in October 2007.	October 2007 Action: Craig Stewart, Strategic Finance Manager and Eddie Turnbull, Head of Corporate Services