



# **Registers of Scotland**

## **Report on the 2007-08 Audit**

**30 July 2008**

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# 1 Executive Summary

## 1.1 Financial results

At 31 March 2008, RoS reported a surplus for the financial year of £11.176 million (2007: £28.670 million). The reported surplus is below the budgeted surplus of £13.828 million due mainly to lower than expected activity in total land registrations during the year. Turnover has also declined significantly from the prior year as the full impact of planned fee reductions applied from January 2007 takes effect.

The accumulated surplus on the income and expenditure account at 31 March 2008 was £127.140 million (2007: £115.964 million). RoS has recently reviewed its reserves policy and anticipates that the accumulated surplus will decline over the business planning cycle as the impact of fee reductions, the decline in activity in the housing market, and the impact of capital investment plans take effect.

The total capital expenditure during the year was £6.344 million which represents an underspend against budget of £3.149 million (33%). This outcome continues the trend of significant underspends recorded against capital budgets in recent years, and reflects delays experienced in implementing IT projects through RoS's partnership with BT. We have recommended that RoS continues to review its arrangements for capital programme budgeting going forward.

## 1.2 Financial Statements

We have given an unqualified opinion on the financial statements of RoS for the 2007-08 financial year and on the regularity of transactions undertaken during that year.

The draft financial statements were presented for audit on 12 June 2008, in line with the agreed timetable. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required to be processed following our audit.

There is one unadjusted audit difference of £80,000 relating to an understatement of the indemnity provision for the financial year. Management have decided not to adjust the financial statements as the value is not considered material.

## 1.3 Governance

We found that RoS's governance arrangements operate well and within a generally sound control environment. RoS 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 the role of ROS.

As part of the 2007-08 audit, we reviewed the systems of internal control in relation to core financial systems, IT systems and applications and compliance with the Data Protection Act 1998. Our audit found that the core financial systems continue to operate effectively, although the overall arrangements for business continuity and the controls over access to IT systems and applications need to be strengthened. RoS has agreed to take action to address the weaknesses identified by audit during the financial year.

#### 1.4 Performance

RoS is committed to achieving best value in its operations and has a best value approach that complies with the guidance issued by the Scottish Government.

During 2007-08, RoS updated its approach to best value by completing the Scottish Government's best value checklist. The completed checklist confirms that the arrangements for best value at RoS are well developed for the majority of the best value principles. RoS is currently developing its approach to sustainable development and joint working to fully comply with best value guidance.

RoS has reported that it has improved efficiency in production with the ratio of total costs to weighted outputs recording an efficiency improvement of 4% in the three year period from 2005-06.

#### 2.5 Looking Forward

In the last six months there has been a significant slowdown in the United Kingdom housing market. The slowdown is starting to feed through into reduced registration activity during the current financial year, and it is likely that RoS will be required to update the income and activity projections contained within its 2008-09 business plan.

#### 1.5 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.

This report is part of a continuing dialogue between RoS 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 RoS's systems and work practices.

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 it. 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](http://www.audit-scotland.gov.uk).

**Grant Thornton UK LLP**  
**30 July 2008**

## 2 Introduction

### 2.1 Purpose of the Report

We have audited the financial statements of the Registers of Scotland (RoS) for the 2007-08 financial year, and examined aspects of RoS's performance and governance arrangements. This report sets out our key findings and meets our requirement to communicate audit matters to those charged with governance in accordance with International Standard on Auditing (UK & Ireland) (ISAUK) 260.

### 2.2 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 RoS as at 31 March 2008 and of its income and 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 (FRoM) 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 Government 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.

### 2.3 Independence and robustness

Ethical standards require us to provide a full and fair disclosure of matters relating to our independence. We have complied with the Auditing Practice Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Grant Thornton UK LLP has undertaken non-audit work for RoS with a value of £17,400 during the 2007-08 financial year. We have considered the scope and scale of this work in line with the Firm's policy on ethical standards and confirm that it does not present a conflict of interest in relation to the discharge of our responsibilities under the Code of Audit Practice. This view has been discussed and agreed with Audit Scotland.

## 3 Financial Results

### 3.1 Income and Expenditure Account

At 31 March 2008, RoS reported a surplus for the financial year of £11.176 million which was £2.652 million below the budgeted figure of £13.828 million, a variance of 19% against budget. Table 1 below summarises the financial results for the year.

Table 1 summarises the financial results for the year versus 2007:

**Table 1: Financial results for the year ending 31 March 2008**

Detail	2008 £'000	2007 £'000
Turnover	72,655	88,633
Staff costs	40,624	38,711
Depreciation	3,816	3,770
Other operating expenditure	17,455	16,931
Net interest	8,936	6,601
Dividend	(8,520)	(7,152)
Surplus for the financial year	11,176	28,670

Source: Registers of Scotland

#### Comparison with the prior year

Turnover is significantly lower than the prior year due to the impact of the new fee structure introduced in January 2007, which reduced the fees for many services. In addition, there was a small decline in the overall volume of land registry dispatches requiring to be processed.

Staff costs have increased, due mainly to the impact of the planned early retirement of some staff members during the year which added £2.103 million of additional costs. This cost increase offset savings obtained from a reduction in staff numbers from 1,392 to 1,347 during the year.

Net interest income is significantly higher than the prior year due to the planned higher level of investments with the National Loan Fund, and an increase in interest rates on deposits.

#### Comparison with budget

RoS's 2007-08 Business Plan forecast a surplus of £13.828 million for the year which is £2.6 million higher than the final outturn of £11.176 million. The outturn variance against budget is explained by variances in both income and expenditure for the year.

Income was some £6.1 million below budget, mainly reflecting lower than expected despatches of 'Transfers of Parts' and 'Dealings with Whole' during the year. The combined adverse volume variance for these products was £11.2 million, which was partly offset by a favourable 'Dealing' price variance of £4.3 million caused by higher than anticipated transaction values.

Net operating expenses are £3 million under budget for the year. This variance consists mainly of two elements - staff costs and depreciation. Staff costs are £1.7 million under budget as RoS did not operate with a full staff complement during the financial year. This reflects, in part, the difficulty ROS experiences with the appointment of staff capable of dealing with more complex cases. Depreciation is £1.2 million under budget due to delayed capital spend on RoS's partnership contract with BT.

RoS had budgeted for a work-in-progress value of £5.7 million at the year end, but actual work-in progress was £6.5 million. This outcome was mainly caused by increased arrears in Dealings (105,005 cases) compared to budget (82,125 cases) confirming that fewer Dealings than planned were processed during the year. The higher arrears position has increased the overall cost of the arrears, and so increased the value reported within the work-in-progress calculation.

### 3.2 Return on Capital Employed

The surpluses achieved by RoS have enabled the target return on capital employed (ROCE) to be achieved over the 3 year period to 31 March 2008. The actual rate achieved was 17.7%, slightly above the target of 15% set by Scottish Ministers.

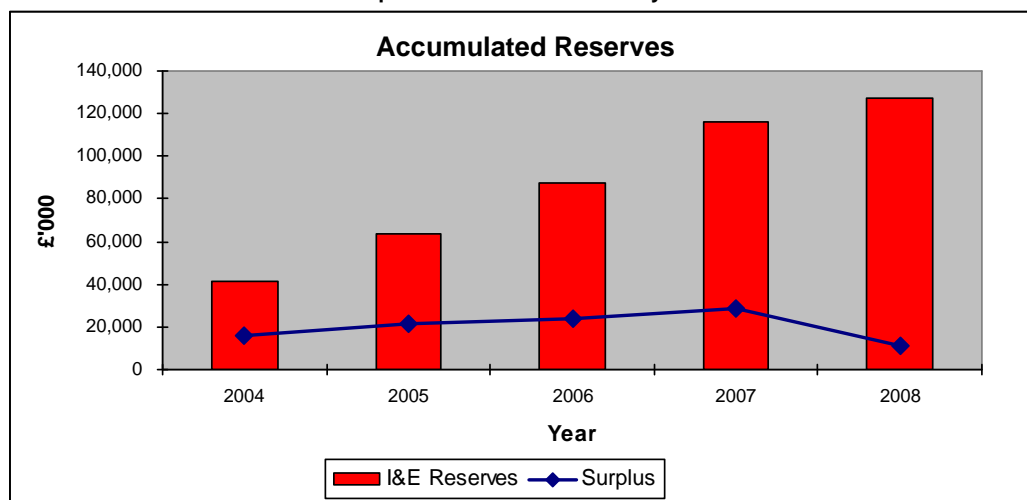
Performance in 2007/08 does, however, represent a significant reduction from the 26% ROCE reported for the previous 3 year period. The downturn reflects the lower surplus reported in 2007-08 and is in line with the agreed policy of price reductions.

From 2008-09, the Scottish Ministers have reduced the target return on capital employed from 15% to 10% over a rolling 3 year period.

### 3.3 Reserves

The surpluses generated have also led to the accumulation of an income and expenditure reserve balance of £127.140 million at 31 March 2008,(2007: £115.964 million). The accumulated reserve balance has built up over the 5 year period from 2003-04 as the increase in property prices has resulted in high levels of income. The growth in the income and expenditure reserve slowed during the 2007-08 financial year, as the fee reductions implemented from January 2007 started to take effect as shown by Chart 1 below

**Chart 1: Accumulated Income and Expenditure Reserves over 5 years**



Source: Registers of Scotland

The Director of Finance presented a draft paper on reserves to the Board in May 2008 outlining how RoS would determine the level of reserves required to meet key business objectives, including:

- future capital investments needs;
- expectations of future demand within the housing market and the need to maintain a stable pricing policy;
- development proposals to increase the coverage of the Land Register;
- the requirement to hold sufficient reserves in order to meet the costs of indemnity claims made under section 12 of the Land Registration (Scotland) Act 1979; and
- a requirement to maintain sufficient reserves to fund contingencies or unforeseen events.

RoS currently estimates that it should expect to hold reserves of approximately £114 million in order to cope with market fluctuations and meet its business plan objectives over the medium term planning cycle. RoS anticipates that existing reserves will decline over time as the impact of further planned fee reductions feed through, and in light of reduced registration activity linked to the recent downturn in the housing market.

### 3.4 Dividends

The dividend due to the Scottish Consolidated Fund based on the 2007-08 financial results is £8.520 million (2007: £7.152 million). The dividend is calculated as 6% of average net assets for the financial year, less any provisions and interest paid on the capital loan.

On 1 April 2008, RoS repaid the Public Dividend Capital of £4.289 million to the Scottish Government. As such, from 2008-09, RoS will no longer have to pay dividend payments to the Scottish Consolidated Fund. RoS intends to utilise the savings generated in funding fee reductions as part of the next fee review process.



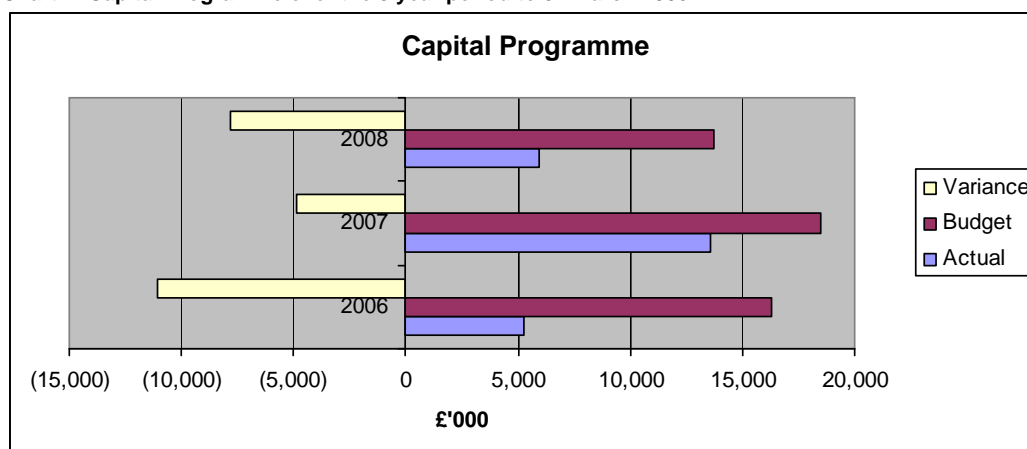
### 3.5 Capital Programme

During the year the Automated Title to Registration of Land (ARTL) system became operational. This is a flagship project for RoS in partnership with BT, and will enable solicitors and other stakeholders to access land registration information on-line, which should lead to significant improvements and efficiency in the transaction process.

The total capital expenditure in 2007-08 was £6.344 million, representing an underspend of £3.149 million (33%) against the budget of £9.493 million. RoS's capital expenditure relates mainly to expenditure in developing computerised systems through a partnership arrangement with BT.

Chart 2 below highlights the variances between the capital programme and capital expenditure over the 3 year period of the BT contract (the budget figures for each year will include amounts in respect of projects delayed from the prior year).

**Chart 2: Capital Programme over the 3 year period to 31 March 2008**



Source: Registers of Scotland

The slippage in capital expenditure mainly reflects slippage across three key capital projects as shown in table 2 below.

**Table 2: Capital projects**

Capital Project	Budget £m	Actual £m	Variance £m	Variance %
<b>Back Office Systems Initiative (BOSI)</b>	£17.1m	£7.8m	£9.3m	(54%)
<b>Public Facing Systems Initiative (PFSI)</b>	£4.3m	£2.6m	£1.7m	(40%)
<b>Business Change</b>	£10.1m	£2.3m	£7.8m	(77%)

Source: Registers of Scotland

The partnership programme is taking longer to implement than planned and will cost more than originally anticipated, partly as a result of changing requirements and partly as the original programme has proved to be too optimistic.

RoS has strengthened the arrangements for the management of the partnership during 2007/08 by changing the role and constitution of the Partnership and Change Group and tightening change control approval processes.

The successful implementation of the BT contract is a critical factor in the achievement of the RoS business plan. There continues to be a need to keep the project management arrangements under review to ensure that value is achieved and that budgeting and monitoring processes over capital spend operate effectively.

### 3.6 Looking forward

RoS published its corporate plan for the 5 year period to 31 March 2013 in January 2008. The financial projections included in the corporate plan indicate that RoS will report an accumulated deficit of £59m over the 5 year planning period as a result of anticipated future fee reductions. However, the corporate plan projections were prepared before the current volatility in the housing market started to take effect.

At the time of writing (week 16 of the 2008-09 financial year), RoS was reporting First Registrations activity at 81% of budget with Transfers of Part activity at 72% of forecast levels. Activity in Dealings of Whole and Sasine Registrations were above budget (104% and 118% respectively) although activity in these areas was also starting to slow down.

We note that a sensitivity analysis assuming a 10% variance in land registry intakes has already been incorporated within the 2008-09 Business Plan. The Business Plan analysis notes that, in addition to the impact on turnover, a fall in intakes will lead to a less efficient utilisation of staff in the short term and consideration should be given to the impact on staff utilisation during the market slow-down.

We note that it is likely that RoS will face greater market sensitivity, at least in the short term, than the 10% allowance incorporated within current estimates. As a consequence the anticipated future fee reductions and other financial and volume assumptions may need substantial revision in the next corporate planning cycle.

### **Action plan points 2 - 3**

## 4 Financial Statements

### 4.1 Audit Opinion

We expect to give an unqualified opinion on the financial statements of RoS for the 2007-08 financial year. We are able to conclude that the financial statements of RoS give a true and fair view of the financial position for the period from 1 April 2007 to 31 March 2008 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.

### 4.2 Audit Quality

The draft financial statements were presented for audit on 12 June 2008, in line with the agreed timetable. The accounts and supporting working papers continue to be of a good standard and, as a result, few adjustments were required to be processed following our audit.

### 4.3 Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated by RoS for reviewing the effectiveness of the system of internal control and the identification and management of risk.

We are satisfied that the Statement complies with Scottish Government 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 obtained from our normal audit work.

### 4.4 Accounting issues

#### Indemnity claims

Indemnity claims can be made by third parties against the Keeper of the Registers of Scotland under the Land Registration (Scotland) Act 1979. RoS has a legal department which deals with all claims for indemnity. A list of claims is retained by the legal department who also provide an estimate of the likely value of each claim. All claims are investigated to see if RoS is liable under the 1979 Act, and investigations are undertaken as necessary for each case.

Financial Reporting Standard 12 - *Provisions, Contingent Liabilities and Contingent Assets*, sets out the circumstances in which a provision should be recognised within the financial statements, as outlined below:

- (a) *an entity has a present obligation (legal or constructive) as a result of a past event;*
- (b) *it is probable that a transfer of economic benefits will be required to settle the obligation; and*

(c) *a reliable estimate can be made of the amount of the obligation.*

RoS currently provide for the likely payout for each indemnity claim, based on the assessment made by the legal department on the likely cost outcome for each case. Our review of the indemnity claims at 31 March 2008 confirmed that RoS provide for claims where it is believed that a payout will be made, and there is an assessment of the value of any likely payout.

During the financial year, RoS commissioned the Government Actuary's Department to undertake an actuarial valuation of potential indemnity claims arising under the 1979 Act. RoS intend to use this information for financial planning purposes and not for the purposes of financial accounting. The Actuary's report is due to be issued in late August 2008.

We note, however, that the Actuary's report may provide additional information in relation to the valuation of indemnity claims not yet received by RoS, but which relate to registrations processed before the year end. If the Actuary's report is likely to become available within a short period following the accounts being authorised for issue, then we will wish to review it before concluding on our consideration of the adequacy of RoS's existing provision for indemnity claims.

#### 4.5 Misstatements identified by the audit

This is a summary of accounting adjustments identified by the audit. Table 3 below lists the unadjusted audit differences following our audit. RoS has not adjusted for this difference as the value is not considered material to the financial statements.

**Table 3: Unadjusted audit differences**

Adjustments effecting reported results	I&E Account		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Estimated value of a litigation claim omitted from the calculation of the 2007-08 indemnity provision	80			80

We would recommend that RoS update its arrangements for analysing potential litigation claims at the balance sheet date, to ensure all relevant claims for indemnity are fully provided for within the accounts.

#### **Action plan point 3**

We also identified a small number of minor disclosure amendments to improve the presentation of the accounts. The Accountable Officer has updated the draft accounts to incorporate these changes.

## 5 Governance

### 5.1 Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

As part of our 2007-08 audit, we assessed the adequacy of RoS's governance arrangements against good practice standards for the public sector. We examined:

- the operation and effectiveness of key controls over IT systems and applications;
- the operation and effectiveness of key controls over financial systems and processes (financial management and budgetary control, income and accounts receivable, fixed assets and provisions); and
- the progress in implementing agreed recommendations arising from our 2006-07 interim audit.

### 5.2 Findings

We found that RoS's governance arrangements operated well and within a generally sound control environment. RoS 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 the role of RoS.

We found that controls over IT systems and applications generally operate well. However, controls relating to password protection were weak and disaster recovery arrangements had not been updated for some time. These weaknesses increased the risk of data loss and may limit the capacity for RoS to prevent and detect fraud or error.

RoS has set up an 'IT continuity project' as part of its partnership arrangement with BT which will bring forward a range of options to improve business continuity arrangements in the near future. RoS has also reviewed its arrangements for password security, but has yet to formally determine how, and by when, it will address the control weaknesses identified in our interim report.

### 5.3 Internal Audit

Deloitte provided internal audit services to RoS during 2007-08 and have concluded that RoS operated within an adequate framework of internal control during the year.

Following a competitive tendering exercise during the year, RoS has appointed Pricewaterhouse Coopers as internal auditors from 2008-09.

### 5.4 Follow up of prior year recommendations

RoS has made good progress in implementing recommendations made in our report on the 2006-07 audit, and three out of the five recommendations are now implemented.

There are two recommendations detailed below which have not been fully implemented although, as noted earlier in this report, RoS has taken action to improve governance and monitoring arrangements in relation to its partnership contract with BT:

- the need to continue to review arrangements for capital budgeting and monitoring and agreeing timescales as part of its partnership arrangement with BT; and
- to consider the need to obtain independent assurance on the accuracy of data used to measure and report performance against set targets.

A summary of progress in implementing prior year recommendations is contained at Appendix B.

## 6 Performance

### 6.1 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.

The Accountable Officer 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.

### 6.2 Best value

During 2007-08, RoS updated its approach to best value by completing the Scottish Government's best value checklist. The checklist confirms that the arrangements for best value at RoS are well developed for the majority of the best value principles.

RoS has identified that the following areas of best value are still under development:

- contribution to sustainable development; and
- joint working.

Following the best value assessment, RoS has set out environmental objectives in the corporate plan as part of its commitment to contribute to the achievement of sustainable development, including reducing paper usage, recycling and reducing CO2 omissions.

RoS has also identified that there are limited opportunities for joint working in many of its activities, but that there is scope for sharing information with other public sector bodies. In addition, RoS participates in collaborative procurement arrangements in the central government sector.

### 6.3 Efficiency

RoS is committed to improving the efficiency of its operations by reducing the standard production cost index by at least 2% for the 3 year period to 31 March 2008. Efficiency is measured by the ratio of total costs to weighted outputs.

For the year ending 31 March 2008, RoS reported efficiency savings of 4% in the ratio of total costs to weighted outputs over a three year period to 2007-08. Table 4 below provides more information on the change in unit costs over the period reviewed:

**Table 4: Efficiency Savings: Production Cost Index**

Detail	Unit Cost Index £
3 years to 2006-07	70.23
3 years to 2007-08	67.42

Source: Registers of Scotland

The decrease in the production cost index does indicate that RoS has become more productive and hence more efficient over the reporting period.

We note that the accounts record a reduction in outputs for the 2007-08 financial year which, on the face of it, might indicate lower efficiency overall. However the measure uses *weighted outputs* to reflect the complexity of the work over a three year period, and also takes account of the cost of delivering the outputs. The main reason for the increase in the three year unit cost index measurement, is that efficiency in the 2004-05 financial year now falls off the calculation, and productivity in 2007-08 was much better than that recorded for 2004-05.

**Grant Thornton UK LLP**  
**30 July 2008**



## Appendix A: Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
<b>Corporate plan</b>					
1	The housing market in the United Kingdom has seen a significant slowdown during 2007-08, and this is expected to continue into 2008-09.	Medium	RoS should re-visit the financial projections contained within its corporate plan in light of the potential impact of the housing market slow-down.	RoS routinely reviews its financial projections during the year, and has already recognised the implications for this year. Current year figures will be reviewed initially by the date shown and will be kept under review during the year.  Later years will be looked at as part of the fee review process.	18 August 2008
2	The 2008-09 Business Plan analysis notes that, in addition to the impact on turnover, a fall in intakes will lead to a less efficient utilisation of staff in the short term. RoS has not yet set out how it will maintain staff utilisation during the market slow-down.	Medium	RoS should set out a contingency plans for managing potential under-utilisation of staff in the event that market slow-down is considered to have an impact beyond the financial year.	RoS routinely manages the redeployment of staff, depending on the availability of casework. We recognise that there is a risk that the scale of this issue may be greater this year than it is habitual; however the effect of the downturn is partly offset by low ARTL take up and the level of arrears. We expect to review this continuously.	Ongoing
<b>Financial Statements</b>					
3	Our review of the provision for indemnity claims as at 31 March 2008 found one litigation case with an estimated value of £80,000 that had not been recorded in the financial statements.	Low	RoS should ensure that all relevant liabilities are identified and if necessary included in the indemnity provision, in line with FRS 12.	Accepted. It is recognised that existing procedures failed to pick up this future liability. The procedures have been widened to include possible litigation cases.	2008-09 Q2 accounts

## Appendix B: Follow up review

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at July 2008
<b>Financial Statements</b>					
1	Capital expenditure for 2006-07 was £9.242 million representing an underspend of £2.986 million (32%) against the budget of £12.261 million. The underspend has occurred due to slippage in the BOSI, PFSI and Business Change projects.	Medium	RoS should review its arrangements for capital budgeting and monitoring and agreeing timescales as part of its partnership arrangement with BT.	<p>The arrangements for budgeting partnership costs are managed and reviewed on an ongoing basis by senior managers. Many projects have to be introduced sequentially and cannot therefore be brought forward to take up slippage in the programme.</p> <p>We intend to review current arrangements for programme management and budget control.</p> <p>31 March 2008</p>	<p><b>In Progress</b></p> <p>As noted in our review of the capital programme, there continues to be slippage in key projects: BOSI, PFSI and Business Change.</p> <p>RoS should consider amending the capital programme to better reflect the expected timing of future capital expenditure.</p>
2	The financial statements record an accumulated income and expenditure reserves position of £115.964 million at 31 March 2007. The Agency has plans in place to utilise £113m of these reserves..	Medium	<p>RoS should keep its reserves position and investment plans under review to ensure reserves are sufficient to meet future demands but are not built up unnecessarily.</p> <p>RoS should consider the implications of the reduction in its fees from 2007-08 onwards and whether this will reduce future reserve balances below that which has been earmarked.</p>	<p>RoS reviews its reserves position and investment plans at least once a year and will continue to do so. As part of the Fee Review the impact of the reduction was estimated and the actual effect is monitored monthly.</p> <p>Any updated thinking about the impact will be incorporated into RoS s future plans.</p> <p>Ongoing</p>	<b>Implemented</b>

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at July 2008
3	RoS provide for the estimated value of indemnity claims as assessed by its legal department but has not provided for claims classified as 'informal'. We did not regard this approach as compliant with FRS 12.	Medium	RoS review its methodology for calculating indemnity liabilities for the 2007-08 financial statements.	The methodology adopted was that recommended by the previous auditors and accepted by RoS as being appropriate and compliant with FRS 12. We will review	<b>Implemented</b>
<b>Performance</b>					
4	RoS does not yet, have a formal approach in place to demonstrate that it achieves best value and efficiency in its operations.	Medium	RoS should formalise its approach to achieving best value and efficiency in its operations.	Historically RoS has performed well against the Best Value criteria but has taken the view that it is preferable to report via its existing reporting channels. We have commenced a new assessment, using the latest self-assessment questionnaire, of our operations against the guidelines published in 2006-07. It is expected however that much of the ongoing reporting will continue to be through existing channels rather than creating a new Best Value one.  31 <sup>st</sup> December 2007	<b>Implemented</b>  RoS completed the Best Value checklist supplied by the Scottish Government during the year

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at July 2008
5	Performance against Ministerial targets is not reviewed by internal audit and no assurance statement is given in relation to the accuracy of their calculation and reporting.	Low	RoS should consider the need to obtain independent assurance on the accuracy of data used to measure and report its performance against set targets.	<p>In the past the targets have been partly looked at by the external auditors, but not comprehensively. They are however, in part at least, based on systems that have already been subject to audit. They have previously only been looked at by internal audit where it was considered to be a complex or high-risk area – although wider management information reporting has been subject to internal audit. We will give consideration to how best we might engage with internal audit in respect of the targets.</p> <p>30 November 2007</p>	<b>Not Implemented</b>



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