Key Issues Memorandum

General Register Office for Scotland

For the year ended 31 March 2011

Gary Devlin
Engagement Lead
T 0131 659 8554
E gary.j.devlin@uk.gt.com

Sue Melrose
Audit Manager
T 0131 659 8541
E sue.m.melrose@uk.gt.com

Claire Shaw
Associate
T 0131 659 8563
E claire.f.shaw@uk.gt.com

Grant Thornton

To the Accountable Officer, the Audit Committee of the General Register Office for Scotland (GROS), and the Auditor General for Scotland

The purpose of this memorandum is to highlight the key issues affecting the results of GROS and the preparation of the financial statements for the year ended 31 March 2011. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print'.

This is the final year of our audit appointment, so we would like to take this opportunity to record our appreciation for the kind assistance provided by the Accountable Officer and her staff during our audit.

Grant Thornton UK LLP

Grant Thornton UK LLP
1/4 Atholl Crescent
Edinburgh EH3 8LQ

T +44 (0)131 229 9181
F +44 (0)131 229 4560
DX ED428 Edinburgh
www.grant-thornton.co.uk

Chartered Accountants
Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP
A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Contents

1 Executive summary

Financial statements	
Audit opinion	• We intend to give an unqualified opinion on both the financial statements of GROS for 2010-11 and on the regularity of transactions undertaken during the financial year.
Financial statements	• The draft financial statements and supporting working papers were of a good standard. Adjustments made to the draft accounts following our audit had no effect on net operating expenditure.
Outturn	• Final outturn was £0.151 million (0.5%) below budget and within the regularity limit.
Internet income	• GROS entered into a new contracted with Brightsolid to administer its Scotland Online service. The new contract alters the contractual relationship between both parties and this has required income from the contract to be shown gross in the accounts (£0.599 million since September 2010) rather than on a net basis. This has no net effect on the reported outturn.

Governance	
National Records of Scotland	• We found that the arrangements to merge GROS with NAS to form National Records of Scotland (NRS) were good. Financial and budgeting arrangements are considered appropriate and are likely to improve as the new organisation matures.
Brightsolid Contract	• We found at our interim audit that GROS had not taken adequate advice in relation to potential VAT issues when negotiating its contract with Brightsolid and this had created some uncertainty in respect of the contractual position in relation to VAT issues.
2011 Census	• The Census project was well managed - with 2.5 million Census questionnaires issued. Response rates reached 96% one month post Census day, which is similar to the 2001 Census and considered a positive result. There were good controls over costs with a small overspend of £0.142 million (0.7%) recorded against a 2010/11 budget of £19.663 million.

Performance	
Efficiencies	• GROS exceeded its Scottish Government efficiency savings target of £1.2 million for the year by £1.908 million due to savings from Procurement, IT and Census. The majority of the savings were due to contract negotiations and collaborative contracts.
Performance	• Performance reporting has improved during the year following the introduction of Key Business Objective (KBO) reporting to the management group (DPG/DSPG).
National performance reports	• GROS has appropriate arrangements for considering Audit Scotland national performance reports. Our audit confirms that GROS has excellent procurement processes.

2 Financial reporting

2.1 Net operating costs

Summary statement of net expenditure	Actual 2010 (restated) £'000	Actual 2011 £'000	Budget 2011 (SBR) £'000
Staff Costs	10,017	11,431	11,242
Administration expenditure	9,558	22,866	22,577
Administration income	(6,161)	(6,262)	(5,633)
Operating Income			
Total net expenditure	**13,414**	**28,035**	**28,186**

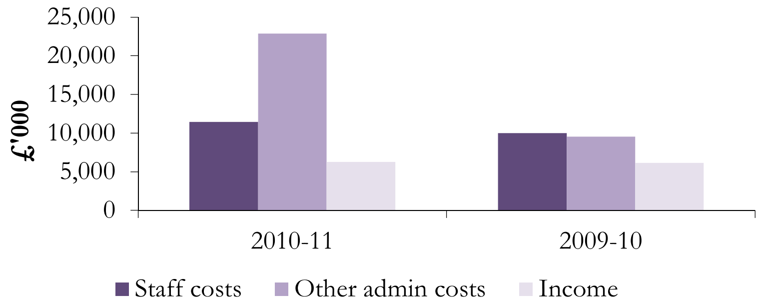
Comparison to budget:
In 2010-11, GROS's expenditure was within the regularity limit at £0.151 million (0.5%) below its budget of £28.186 million.

This result has been achieved through:

- Temporary staff costs £0.107 million below budget - arising as temporary staff costs for Census operations were lower than required, due to Census running more smoothly than expected (this includes specialist Census staff, eg IT staff)
- Other staff costs£0.270 million above budget -due to early retirement provision costs for 20 staff which was more than budgeted. In addition the early retirement packages are determined by Scottish Government (SG) Central HR rather than GROS
- Supplies & services £0.371 million above against budget - mainly due to additional costs for the ScotlandsPeople centre website income (administered by Brightsolid). The costs are a % of the income, therefore, where income is higher than budget so are costs. Website income is difficult to forecast especially with heightened interest as a result of the 2011 Census
- Fees and charges income was £0.426 million above budget - due to website income as previously noted
- Miscellaneous income was £0.211 million above budget due to a recharge of GROS staff costs to NAS as part of the merger preparation process.

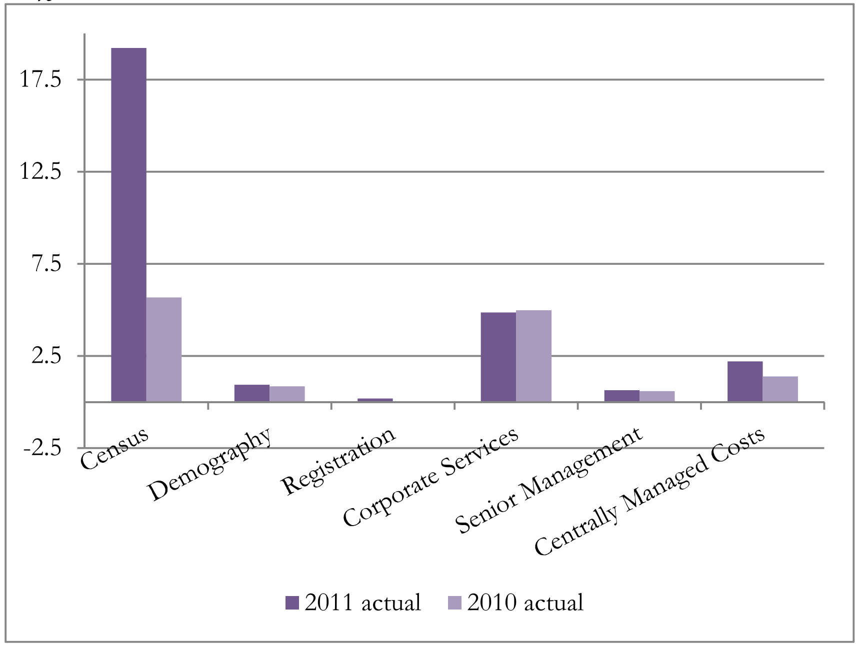
Comparison to 2009-10:
Net expenditure has increased by £14.621 million (109%) compared to 2009-10 (restated) mainly due to spend for the 2011 Census.

Expenditure 2010-11 compared to 2009-10

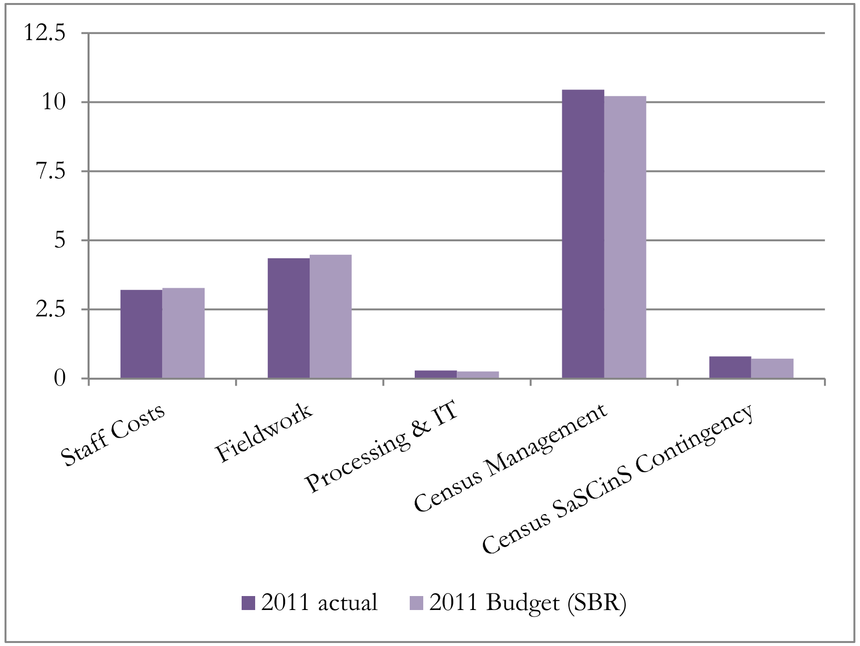


- Staff costs have increased by £1.414 million due to increased staff numbers for the 2011 Census and also increased early retirement costs for 20 staff in 2011 (2010: 2 staff).
- Supplies and Services have increased £14.596 million due to Census.

- The costs compared to prior year across each division can be seen below, showing the only significant increases are in Census and Centrally Managed Costs, which include the early retirement costs of £0.8 million.



The overall Census budget was £19.063 million for 2010-11. Outturn against budget was £19.205 million - a small overspend of £0.142 million (0.7%). Given the size of the Census project, we consider this a good outturn and evidence of good cost control. The breakdown of costs in each area of the Census division is shown below against 2010-11 Budget.



2.2 Financial position

Balance sheet	2011 £'000	2010 £'000
Non current assets	8,660	9,145
Current assets	2,753	1,005
Current liabilities	(3,056)	(2,433)
Provisions for liabilities and charges	(577)	(240)
Total net assets	**7,780**	**7,477**
General fund	4,457	4,041
Revaluation reserve	3,323	3,436
Total taxpayers' equity	**7,780**	**7,477**

Non current assets have decreased by £0.485 million due to:

- £0.611 million of additions, mostly in respect of computer equipment, software and software licences
- £1.148 million of depreciation
- £0.236 million indexation uplift
- £0.184 million downwards revaluation in respect of Station Road and New Register House and arose due to professional valuations being obtained as part of the 5 year rolling valuation programme.

Current assets at 31 March 2011 are £1.748 million more than at 31 March 2010 mainly due to:

- £0.253 million timing of the Scotlands' People Centre (SPC) internet income due from Brightsolid (three months due in 2011 compared to two months in 2010)
- £0.229 million accrued income from NAS being recharged costs from GROS due to shared services during the year
- £0.906 million increased VAT reclaimable due to the increased VAT rate and the timing of Census costs immediately before the year end
- £0.353 million increase in prepayments due to additional rents prepaid for Census Field Operations.

Current liabilities at 31 March 2011 are £0.623 million higher than as at 31 March 2010 mainly due to significant creditors and accruals at the year end in respect of the 2011 Census programme.

Provisions are in respect of GROS's liability for payments to people who have left under early retirement agreements. In the year there were provisions made for 20 staff (2010: 2 staff).

The general fund has increased, meaning that the cash funding was higher than net expenditure.

General Fund	2011 £'000	2010 £'000
Balance at beginning of year	4,041	6,341
Non cash charges - auditor remuneration	55	57
Transfers between reserves	165	174
Net operating cost for the year	(28,035)	(13,414)
Net funding	28,231	10,883
Balance at 31 March 2010	**4,457**	**4,041**

The decrease in the revaluation reserve is in respect of:

- £0.184 million downward revaluation on properties
- £0.236 million indexation uplift
- £0.165 million depreciation on the revalued proportion of all assets.

2.3 Conclusion

Overall GROS has managed its finances well. It has had a significant spend in the current year due to the 2011 Census, however, this has been managed well and close to budget. We note the difficulty in forecasting accurately for such a large project especially when this is undertaken only every ten years.

Going forward we suggest that the challenges for the newly merged body National Records of Scotland will be in controlling merger costs and developing accurate budgets for the newly merged organisation.

3 Financial statements

Findings and conclusions

GROS is required to produce financial statements under an Accounts Direction issued by the Scottish Ministers. The Accounts Direction requires GROS to prepare its financial statements in line with the accounting principles and disclosure requirements of the 2010-11 iFReM.

We audit the financial statements and give an opinion on whether they give a true and fair view. Our opinion also covers whether 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 and consider GROS's compliance with Scottish Government guidance, the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control and we assess whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

As part of our 2010-11 interim audit, we assessed the adequacy of GROS's financial systems in respect of:

- operating expenses purchasing
- fixed assets
- budgetary control and financial management
- Census project budgetary control and financial management.

We found that key financial systems are generally operating effectively. We made four recommendations for improvements in our interim management report issued in March 2011.

One of these recommendations was wide ranging, relating to the merger with NAS, recommending best practice for Machinery of Government changes.

Two of the recommendations were considered to be higher risk, relating to:

- the VAT deductions on the Brightsolid contract (a potential loss to GROS)
- Adequate VAT and legal advice should be taken for any future Scotlands Online and administration contracts.

Please refer to our interim report for our full conclusions on these issues.

During our audit of the financial statements, we have also proposed a small number of minor changes to the accounts which have been accepted and reported separately to management.

The draft financial statements and supporting working papers were presented for audit prior to the fieldwork in accordance with our agreed timetable and were of a good standard.

We intend to give an unqualified opinion on both the financial statements of GROS for 2010-11 and on the regularity of transactions undertaken during the financial year.

3.1 Matters identified at the planning stage

Specific issue identified in our Audit Approach Memorandum	Auditor Response
Outturn to 31 March 2011 The GROS budget approved at the Spring Budget Revision (SBR) is for £28.2 million for both revenue and capital (split is £27.6 million revenue, £0.6 million capital). This is comprised of the base line budget plus £6.3 million transferred for the 2011 Census. Historically GROS have reported an underspend. With the significant increase in budget and predicted costs associated with the 2011 Census there is a risk that GROS significantly over or underspend against their budget. As at December 2010 outturn was extremely close to budget. We therefore concluded that there was a higher risk of overspend to March 2011 with significant costs due for the Census.	We reviewed the financial management and budgetary controls systems during our interim audit in January 2011 and found systems were operating effectively; we made no recommendations for improvement. We noted however that the funding requirement of £6.3 million awarded in 2010-11 for the Census should have been added to the GROS baseline for 2011-12 but had not been done so. This has now been added to the budget for the new body for 2011-12 but remains outstanding for future years. Management continue to pursue this matter with the Scottish Government. The outturn to 31 March 2011 is £0.151 million (0.5%) below budget a total operating budget of £28.2 million. This budget included £0.4 million of Annually Managed Expenditure (AME) which was used in full. The underspend is a lower absolute amount and percentage underspend than in prior years (2010: £0.248 million, 0: 2%) indicating that overall GROS is improving on its budget monitoring, especially during a year where budgeted costs were significantly higher than previously due to the Census, and in addition some of the Census costs were difficult to forecast. The capital budget was £0.638 million (SBR) and spend was £0.611 million - a small underspend of £0.027 million (4%).

Specific issue identified in our Audit Approach Memorandum	Auditor Response
2011 Census Census day was 27 March 2011. A budget of £65 million in total has been allocated by the Scottish Government for the overall project. GROS is responsible for the Scotland Census and used c.6,000 enumerators and other temporary field staff to deliver 2.5 million Census questionnaires to every household in Scotland. The collation and interpreting of the information will take place in 2011-12 with the first results to be published in Autumn 2012. The reputational risk from failure to deliver the Census would be significant however there is a high risk of delivering but being significantly over budget. In the 2010-11 budget there was a significant increase for the Census division - overall Census budget for the year was £19.205 million. Close monitoring is required to ensure the project is progressing accurately. Indications from management immediately prior to the Census were that it was progressing well.	At our interim review we reviewed the progress of the project against targets and compare actual costs against budget. We found that overall there was good management of the timetable and good arrangements for reporting progress against key milestones. We noted from our review of costs against budget that the difficulty in setting the Census budget was more to do with timing of certain costs rather than unknown costs. Monitoring reports showed the Census programme budget holders were aware of the timing differences and could easily explain variances. Census day was 27 March 2011. 2.5 million questionnaires were handed out to every household in Scotland. 2011 was the first Census to be available to complete online. Overall the day has been considered a success. Response rates reached 96% one month post Census day which is similar to the 2001 Census and is considered a positive result. At our final audit we reviewed costs for the Census division against budget for the full year - overall there is a £0.141 million overspend against budget (0.7%) which is attributed to the timing of a payment to Parcelforce for delivery of questionnaires - this was originally forecast in 2011-12. This follows our above observations that the Census budget difficulties are in the timing of some significant costs. 2011-12 will see the processing of the Census questionnaires and the preparation of the statistics, due to be issued in late 2012. If not already in place, we would recommend a post completion review.

Specific issue identified in our Audit Approach Memorandum	Auditor Response
Income from ScotlandsPeople Website The ScotlandsPeople Centre (SPC) website income is split between GROS, NAS and the Court of Lord Lyon (the partners) as has been the case since 2002. There were two issues raised in our Audit Approach Memorandum: • Split of income and costs between the partners - the costs and income from the website were split according to the Memorandum of Understanding (MoU) which was still unsigned at the date of our last audit in June 2010. We had noted previously as had internal audit that the split of costs and income in the MoU was not consistent. Internal audit in particular had made recommendations to redistribute the work load relating to the administration of the SPC income and costs between the partners.	• During our interim and final audits we looked at the status of the MoU between the partners, and also reviewed the internal audit report (issued 2011) which gave reasonable assurance over the financial arrangements for the SPC. It is noted that now GROS and NAS have merged, many of the recommendation points are now redundant as there is no split between income and costs in the new body. Governance arrangements for the SPC are to be included in the new NRS strategy and monitoring programme which is still under development following the merger.
• During 2009 Brightsolid (the contractor who maintains the website) began charging VAT on their fee for the provision of records (which was a % of the income). HMRC advised that GROS could not recover the additional VAT, meaning this was an additional cost to GROS - a total cost of c.£0.3 million in 2010-11. Grant Thornton UK LLP have pursued this further with HMRC who stand by their original position. GROS are also continuing negotiations with Brightsolid. Following the review of the situation, it was also noted that the website income and costs should be disclosed differently. Previously the income was disclosed net of the Brightsolid costs, however we recommended that the income should be 'grossed up', ie total income shown in the income section of the Statement of Net Expenditure, and Brightsolid's fee should be shown as a cost.	• We raised this issue in the prior year, and recommended that legal advice was taken regarding the contract with Brightsolid. From our discussions with management we understand that legal advice has been sought regarding the VAT position for the Brightsolid contract and discussions are ongoing with Brightsolid with a view to them absorbing the VAT into their % share of income. In additional discussions are still ongoing with HMRC with a view to recovering VAT from them. Progression is slow on this issue. The 2010-11 budget have been adjusted to expect the additional VAT cost. We had previously raised the issue of grossing up in the website income and cost, following a more in depth review of the issue during out 2009-10 audit. Management have concluded that up until the new contract commenced in September 2010, the contract was not clear as to whether Brightsolid were an agent or were licenced to operate the website. Therefore the presentation of income and costs will continue to be shown net, as they were in the 2009/10 accounts, up until the commencement of the new contract in September 2010. We agree with this treatment.

Specific issue identified in our Audit Approach Memorandum	Auditor Response
NHSCR register GROS has a statutory duty to maintain the National Health Service Central Register and has a financial objective to break-even on the provision of this service. In 2009-10 an operating profit of £0.106 million was made against a budgeted surplus of £0.063 million. An operating loss was reported in the previous two years (2008-09: £0.058 million and 2007-08: £0.259 million). The level of income for 2010-11 was reduced from £1 million in previous years to £0.950 million in 2010-11. Budget monitoring is therefore essential to meet the break-even target.	We reviewed the memorandum trading accounts for the NHSCR for the period to 31 March 2011 which shows an outturn of deficit of £0.012 million against a budgeted surplus of £0.007 million. This outturn is extremely close to break even. The variance between budget and outturn was the results of several small variances none of which are individually significant.
Recharge of costs to NAS In the run up to the merger with NAS, GROS staff have been working on amalgamation projects and also some NAS work as staff at NAS prepare to retire. Therefore it was felt by management it would be appropriate to recharge some of the staff costs from GROS to NAS. A recharge of £0.229 million has been processed as income in the 2010-11 accounts.	We reviewed the reason for the recharge of staff costs and consider this reasonable. We have confirmed the agreement of senior staff to the charge between NAS and GROS. We reviewed the calculation for the recharge and agreed this is calculated correctly. This will be eliminated on 1 April 2011 when the bodies merge.
Public Services Reform (Scotland) Act 2010 (the Act) The above act requires disclosure on expenditure and certain other matters as soon as is reasonably practical after the end of the financial year. The act is effective from 1 October 2010 so technically only requires disclosure from this date, however best practice suggests full year disclosure should be made. Disclosures are required in respect of: • total expenditure incurrent on public relations, overseas travel, hospitality and entertainment, and external consultancy • payments made during the period with a value in excess of £25,000 • statement specifying the number of individuals who received remuneration in excess of £150,000 in the financial year (none expected in GROS) • a statement of the steps taken during the financial year to promote and increase sustainable growth through the exercise of its functions • a statement of the steps taken during the financial year to improve efficiency, effectiveness and economy in the exercise of its functions.	Publication is permitted in the accounts and annual report or disclosure on the website would also suffice. This information should be published on the NRS website before we sign the audit report, or alternatively we would seek representation from management on this issue in the management representation letter.

Specific issue identified in our Audit Approach Memorandum	Auditor Response
Cost of Capital The 2010-11 FReM at paragraph 11.5.2 states that from 2010-11 onwards bodies are no longer required to account for the cost of capital within their accounts. In accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, this should be treated as a change in accounting policy and should be retrospectively adjusted by making a prior year adjustment.	The cost of capital charged in the 2009-10 accounts has been removed through a prior year adjustment and accurate disclosure for this has been made in the accounts.

4 Audit adjustments

4.1 Adjusted items

There is no impact on the operating cost statement for adjusted misstatements.

All adjusted items are set out in 4.3 below.

4.2 Unadjusted items

The aggregate impact of unadjusted items on the operating cost statement, were they to be processed, would result in an additional £41k reduction in net operating costs. This is below our level of audit materiality.

All unadjusted items are set out in 4.4 below.

4.3 Adjusted items

Journal reference	Description	Balance sheet	Balance sheet	Operating cost	Operating cost	Outturn effect	Adjusted Y/N	Description
		Dr	Cr	Dr	Cr	cr +ve		
1	DR Revaluation Reserve/General Fund	16,884					Y	
	CR Asset cost - buildings		(16,884)					
	Being increase to revaluation loss on buildings in accordance with revaluation report.							
Outturn		16,884	(16,884)	-	-	-		

4.4 Unadjusted items

Journal reference	Description	Balance sheet	Balance sheet	Operating cost	Operating cost	Outturn effect	Adjusted Y/N	Reason for not adjusting
		Dr	Cr	Dr	Cr	cr +ve		
1	DR Accruals	24,991						
	CR Staff Costs				(24,991)	24,991	N	*Not material*
	Being reduction of employee benefits accrual based on auditor recalculation							
2	DR Other Debtors	15,635						
	CR SPC Income				(15,635)	15,635	N	*Not material*
Outturn		40,626	-	-	(40,626)	40,626		

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.

5.2 Audit Approach

As part of our 2010-11 interim audit, we assessed the adequacy of GROS's governance arrangements against good practice standards for the public sector in respect of:

- amalgamation plans
- reporting to management

We recommended areas to consider regarding the amalgamation however overall noted that the planning arrangements were good, i.e. the formation of various working group to address the key issue areas. Our recommendations related to formalising the amalgamation plans and organisation structure for the change project. We concluded that the reports provided to management were an excellent improvement and were focused on the key risk areas.

The following table sets out additional matters covered during our audit of the 2010-11 financial statements.

5.3 Matters identified at the planning stage

Specific issue identified in our Audit Approach Memorandum	Auditor Response
Amalgamation & Budget 2011-12 GROS merged with NAS into a new body 'National Records of Scotland' (NRS) on 1 April 2011. In our Audit Approach Memorandum we identified the key risk areas as Governance and Financial. Within the Governance risks we identified the need to ensure effective project management, effective risk management, effective governance, alignment of strategies, integration of staff, effectively manage distraction from day to day activities, effective cost reduction processes (workforce planning and asset management) and setting an effective budget for the new body. Within the Finance risks we identified that the GROS and NAS closing balances should be properly stated to ensure opening balances in the new	At our interim audit we reviewed the plans for the merger. We recommended in our interim report (dated March 2011, pre merger) various recommendations relating to points to consider when dealing with the merger - these related to operating and staff policies alignment, alignment of IT strategies and services across the platforms, communications plan for the new body, budgeting for the new body, chart of accounts and monitoring reports required for the new body, accounting policies alignment, opening balance sheet for the new body and asset management. Our audit confirmed that the planning for the merger was good with various working groups set up to analyse the issues and report back to central management. Our formal recommendations focussed on documenting the organisational structure for those in charge of the

Specific issue identified in our Audit Approach Memorandum	Auditor Response
body are correct, accounting policies in both bodies should be reviewed and aligned, intercompany balances between GROS and NAS at the year end should agree to enable simple cancelling of these balances in the new body and asset valuations should be updated/carried out in both bodies to ensure the fair values assigned to assets in the new body are accurate.	merger and formalising a merger plan. At our final audit we reviewed the budgetary plans for the new body and the finance arrangements. We noted that the creation of a new chart of accounts and monitoring reports has been developed by adding codes to the existing GROS structure. Therefore budget holders have been able to review their spending easily. The development of a budget for the new body NRS was completed in mid June 2011. While this is a delay of two and half months following the merger, the budget that has now drawn up should be of higher quality than a simple add together of the existing 2011-12 budgets for GROS and NAS. In particular there have been significant staffing changes in Corporate Services which have been reflected in the new budget. We understand that the budget will be formally accepted at the Autumn Budget Review and any adjustments put through at Spring Budget Review in due course. In particular, the previous NAS departmental budgets may require further amendment to fully reflect the impact of the merger.

5.4 Matters requiring follow-up from our interim audit

Issue identified for follow-up	Management Response
ScotlandsPeople Centre Memorandum of Understanding (MoU) This is discussed above in more detail, please refer.	We concluded that following the merger of GROS and NAS into a new body, NRS, several of the recommendations made regarding the SPC financial arrangements are now no longer relevant.
Brightsolid/VAT See above for more detail on this issue.	Management are currently obtaining legal advice on the dispute. HMRC still maintain that the VAT cannot be reclaimed, meaning an increased cost to GROS, which may potentially be reclaimable from Brightsolid.

6 Performance and best value

6.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. The public sector is facing a period of significant financial austerity with budget cuts likely to be in the region of 15-20% in real terms by 2013-14. In many areas this means that current levels of service provision may be unsustainable. Public pressure to deliver services as efficiently and cost effectively as possible means that being able to demonstrate that the organisation delivers Best Value is more important than ever.

As part of our final 2010-11 audit carried out in June2011, we reviewed GROS's arrangements for:

- ensuring Best Value
- delivering efficiencies.

We found that GROS has generally good arrangements to demonstrate that it is achieving Best Value and to deliver efficiency savings.

The following table sets out additional matters covered during our audit of the 2010-11 financial statements.

Specific issue identified in our Audit Approach Memorandum	Auditor Response
Audit Scotland Reporting Audit Scotland requires auditors to provide feedback twice a year to them on the response by GROS to national performance reports that are relevant to central government bodies. Where we find that GROS has not adequately considered a relevant national study report and/or has not prepared an action plan to implement the relevant recommendations, we are required to discuss this with you and include a recommendation within our reports to you. In addition, for 2010-11 we are required to examine in more detail the response to some national performance reports, in particular "Improving Public Sector Purchasing".	**Procurement Review** We have reviewed the Procurement Capability Assessments which were performed on GROS in 2009-10 and 2010-11 which we consider show a strong procurement function. From our discussions with Sue Barber, Head of Procurement, we understand that work is on-going to develop an improvement plan for NRS. We note however that going forward procurement arrangements in the NAS divisions remain someway behind in their development and will require to be updated. **Energy Efficiency** We have reviewed the body's response to the national report "Improving energy efficiency: a follow-up report". We consider that this has been considered appropriately by the DSPG (management board). Improvement plans are being

Specific issue identified in our Audit Approach Memorandum	Auditor Response
	formulated for the new body NRS and consideration has been given to the purchase of credits under the CRC Efficiency Scheme. **Role of Boards** We have reviewed the body's response to the national report "The role of boards". We consider that this has been considered appropriately by the DSPG (management board). The sentiment in the national report has been embraced in the new body, NRS, by the creation of a board; neither of the predecessor bodies has this before.
Performance We noted in our 2009-10 interim report that although GROS have strategic objectives which have financial/numerical targets, not all of the numerical/financial reporting on Key Performance Indicators (KPIs) relate to the strategic objectives. We noted that the new Accountable Officer was already making some changes to the way in which information is provided to stakeholders, including merging the Accounts and Annual Performance Review reports, publishing KBOs and outcomes on the GROS website and changing the format and quality of reporting to the management board.	We reviewed the Key Business Objectives reporting at the year end to ensure they were consistent with our understanding of the organisation and its performance from our audit. We advised in our interim report on the format of reporting to the management board (DPG/DSPG)which we considered was an excellent improvement to governance and focuses the management board effectively to the areas of key business risk. Going forward the newly merged body NRS is reviewing the measures required to be reported on to the board, which incorporate existing GROS measures where they are still relevant or developing these further, as well as new measures for the part of the entity previously in NAS. This work is ongoing.
Efficiency savings The Scottish Government has set GROS a target to achieve £1.2 million in efficiency savings for 2010-11.	We have reviewed the efficiency savings made in 2010-11 which include savings of £1.724 million in Procurement, £0.238 million in IT and £1.146 million in Census (IT and Census have been grouped into 'asset management' savings). Overall there are realised savings of £3.108 million which is an excellent result. £2.918 million of the savings is considered non-recurring. The initial target of £1.2 million set by the Scottish Government was below the planned savings in GROS of £1.359 million. However the actual savings made are still £1.749 million above GROS' own planned savings. Against the planned savings target, the most significant additional savings were realised in

Specific issue identified in our Audit Approach Memorandum	Auditor Response
	Procurement (£1.652 million). The efficiencies in procurement of £1.724 million were £1.652 million above a target of £0.072 million (which was the same in the Scottish Government target and the GROS planned savings target). The most significant was of £1.163 million on the Census contract for the systems and processing with CACI Ltd. Additional savings of £0.192 million were realised on six other contracts and a further £0.304 million of the total savings were realised on Scottish Government collaborative contracts. The realised efficiency savings in IT of £0.238 million were £0.143 million above a target of £0.095 (which was the same in the Scottish Government target and the GROS planned savings target). The efficiencies were found in Telecoms savings. The realised efficiency savings in Census of £1.146 million were £0.113 million above the Scottish Government target of £1.033 million, but £0.046 million below the GROS planned savings of £1.192 million. Overall the savings against the original budget were found in Census Helpline, Map Production, Picking & Packing, Field Offices and Payroll. Efficiencies will become more difficult to achieve in the future due to budget constraints and the new body will need to plan for ways of obtaining new efficiencies. In addition the large Census spend allows for large savings to be realised - after the Census has passed savings may be more difficult to find.

7 Looking forward

GROS merged with NAS on 1 April 2011 to form a new body 'National Records of Scotland' (NRS). The bodies already worked closely together and so the merger should continue these positive relationships between the divisions of the GROS and NAS while saving on support costs such as finance and accommodation. The organisational structures of GROS and NAS have historically been very different. The merger provides an opportunity for the board to review the organisational structure.

The merged body has been progressing the merging of IT systems and finance systems during the busy Census period for GROS. The management have taken the opportunity to take a strategic and critical review of the existing performance targets and measures, objectives and reporting as well as efficiencies and savings. This has resulted in a budget process which has concluded in June 2011, which should provide a realistic budget for the new merged organisation. The finance staff and Accountable Officer are aware of the crucial need to monitor the NAS cost centres very closely as their budget is based on less historical information than GROS. Work is progressing on merging the accounting ledgers and accounting policies between the two bodies will need to be aligned.

GROS has completed the 2011 Census event however now must focus on the processing of the questionnaires and production of results. The £65 million Census project has its main final costs in 2011-12 with a budget of £16.263 million. The careful cost and progress monitoring which has been shown throughout the Census project should be continued.

Planning for the public sector funding cuts of 15-20% over the three years from April 2011 will also need to remain as a key planning priority. GROS has traditionally reported an underspend against budget as have NAS. The challenge for NRS will be to control spending and make efficiencies in the same way as previously in the bigger body, while aiming to be on target. Budgetary planning in the next few years is likely to be an improving process as NRS better integrates the financial planning and management arrangements of the two previous organisations.

8 The small print

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee and the Board of management.

The purpose of this memorandum is to highlight the key issues affecting the results of GROS and the preparation of the organisation's financial statements for the year ended 31 March 2011.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the organisation.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the organisation arising under the Code of Audit Practice.

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.**

Responsibilities of the Accountable Officer and auditors

The Board and Accountable Officer are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Board and Accountable Officer confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

GROS's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board and Accountable Officer that it has done so.

The Board and Accountable Officer are required to review the organisation's internal financial controls. In addition, they are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Board and Accountable Officer should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

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 will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£ incl VAT
Grant Thornton UK LLP	51,000
Audit Scotland fixed charge	3,800
Total	54,800

In addition, Grant Thornton have provided VAT support to GROS in relation to an issue with the website service and have invoiced a total fee of £9,635 in 2010-11.