Registers of Scotland

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Registers of Scotland and the Auditor General for Scotland
November 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages

2011/12

The financial challenges facing the Scottish public sector are well documented. Economic and trading conditions remain difficult, and public bodies face deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by the Registers of Scotland (RoS). We audited the financial statements and reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

RoS underpins the property market by administering a land registry system that provides security of title to registered properties, along with ready access to up-to-date information on property transactions. The Scottish Government has recognised RoS's key role in underpinning economic and social stability in Scotland. The work undertaken by RoS is complex and the organisation is dependent on IT for many of its key processes.

Financial statements

We have given an unqualified opinion on the financial statements of RoS for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

Financial position and use of resources

RoS reported a loss of £10.2 million for the year ended 31 March 2012 (2011: 29.6 million loss). The reported loss for 2011/12 is largely a consequence of non recurring costs; impairment charges for non current assets; restructuring costs, and; a provision relating to the early termination of the IT service contract. After allowing for these factors there was an underlying deficit of £1.2 million, which was within budget targets.

This is the fourth consecutive year that RoS has reported an operating loss, over which time retained profit reserves have fallen from £144 million to £63.9 million. Action is being taken to increase income and reduce costs as part of a strategy to achieve financial balance by 2014/15. This is a significant challenge for RoS given current market conditions and operational uncertainties. It is critical that financial balance is achieved in the medium term, ensuring the underlying financial position of the organisation is sustainable.

Governance and accountability

RoS's corporate governance arrangements were generally in line with requirements, and operated satisfactorily during 2011-12. However, there is a requirement to improve arrangements in some important areas.

Preparation and testing of a disaster plan to address the loss of RoS's main building or the loss of part (or all) of the IT infrastructure is a key area for improvement. In addition, there remain significant risks in ensuring business continuity following the decision to terminate the IT service contract.

We examined the organisation's key financial systems underpinning the RoS's control environment and concluded that they operated sufficiently well for us to place reliance on them.

Performance and Best Value

The key elements of an effective performance management framework are in place. Reported performance against key performance targets in 2011/12 was close to or above targets in all areas, although a number of targets were missed.

RoS has not updated its overall approach to Best Value since 2007-08 and has not reviewed its approach and performance in relation to updated guidance issued by the Scottish Government in 2011.

It is essential that RoS identifies and applies the learning points highlighted in the recent Audit Scotland report on the management of ICT contracts, and from its own experience more generally, in the manner in which it manages its IT provision.

Outlook

RoS published its three-year corporate plan on 1 April 2012. The corporate plan does not envisage the organisation returning to break even position until 2014-15. This is based on senior management's assessment of the market place and other business intelligence gathered from financial and government institutions. RoS acknowledge that the next three years are going to be extremely challenging.

Key changes ahead include implementation of the Land Registration etc. (Scotland) Act 2012, and support for the collection of Land and Buildings Transaction Tax from 2015.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Registers of Scotland (RoS). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of RoS.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that RoS understands its risks and has arrangements in place to manage them. The Chief Executive, Accountable Officer and other members of the Board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the Registers of Scotland and the Auditor General and should form a key part of discussions within RoS's audit committee. Reports should be made available to stakeholders and the public, where appropriate, and this report will be published on our website after consideration by the audit committee. Audit is an essential element of accountability and the process of public reporting.

5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

6. The assistance and co-operation given to us during our audit is gratefully acknowledged.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.

8. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
   - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
   - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
   - the regularity of the expenditure and income.

9. We review and report on, as appropriate, other information published with the financial statements, including the directors' report and management commentary, the governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinions

10. We have given an unqualified opinion that the financial statements of RoS for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.

11. RoS is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the director's report and management commentary was consistent with the financial statements.

12. We also reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

Regularity

13. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Accounting issues

Going concern

14. 2011/12 is the fourth consecutive year that RoS has reported an operating loss, over which time retained profit reserves have fallen from £144 million to £63 million. Under current financial plans further losses are expected for at least the next two years, following which

operations are expected to return a surplus. Taking into account the retained profit reserves at 31 March 2012; the revision to fees that became effective from January 2011 and the projected financial position at 2014/15, we have concluded that it is appropriate that RoS prepared its financial statements on a going concern basis. We provided further comment on RoS's financial position at page 11 in this report.

Accounts submission

15. The financial statements were submitted for audit on 16th May and the final audit commenced on 21st May in accordance with a pre-agreed timetable. The draft financial statements were supported by a comprehensive set of working papers and schedules. However, our audit testing extended well beyond the timetabled completion date of 8 June due to the volume of issues arising in the audit, including: the need to revise and expand disclosures within the annual accounts; delays in completing the annual report section; establishing a provision for exit costs associated with the termination of an IT service, finalising impairment charges, and; effecting a prior year adjustment in respect of work-in-progress. We will agree a detailed plan with RoS officials to avoid any similar delays next year.

16. The financial statements were finalised in late August and signed by the Accountable Officer on 30 August 2012. The audit opinion was signed on 4 September. All errors identified during the audit process were corrected in the accounts.

Provision for exit costs associated with early termination of IT service contract

17. On 29 March 2012 RoS decided to withdraw early from the contract it had entered into with its IT service provider. Following this decision formal contractual notice was served on the provider in mid April 2012 with a revised exit date of November 2012 being agreed at the same time. The contract was entered into in November 2004 and was originally anticipated to run until November 2014. The contract contained provisions for early termination, including the basis of compensation payments and transition arrangements. Since giving notice of termination, RoS negotiated with the provider on exit arrangements, including the transfer of responsibilities back to RoS, and the value of any compensation payment due to the provider under the contract as a result of early termination. The accounts therefore included a provision of £2 million in relation to estimated compensation and other amounts payable as result of early termination of the contract.

18. We reviewed the basis of the decision to make a provision in the 2011/12 accounts for this item and have concluded that it is appropriate to do so. We have also reviewed the basis of the estimate and consider it reasonable at this point in time.

19. We provide further comment below (in the Governance and Accountability section) on a number of risks relating to the termination of the IT service contract.

Prior year adjustments

20. Impairment costs relating to the abandonment in 2010/11 of two IT systems that had not been brought into use were wrongly included in the 2010/11 Work in Progress (WIP) calculations, resulting in a material overstatement of the WIP valuation. As a result, the 2011-12 opening balances required to be corrected by way of a prior year adjustment, the effect of which was to decrease reported losses by £0.8 million.

Impairment of Sasine archive asset

21. RoS had previously recognised as a non-current asset £3.4 million of labour costs incurred over the past 5 years in scanning older Sasine records into a digital format. Following an impairment review, the carrying value of this asset (£3.3 million) was written off to expenditure during 2011/12 on the grounds that costs were more appropriately charged as an expense in the Statement of Comprehensive Income and Expenditure. Such an approach is consistent with similar costs associated with the administration of other registers and records, and with RoS's stated accounting policy of not valuing its registers. We are content that the impairment is appropriate

Write-off of Crofting Register development costs

22. Costs of £197,000 incurred in developing software to establish a Crofting Register had been recognised as a non-current asset under construction. As a result of technical and cost difficulties associated with the termination of the IT service contract, RoS decided to abandon the project in its present form and effectively start again with a new project. The costs incurred to date have therefore been written off and disclosed as a constructive loss in the 2011/12 accounts.

Meadowbank House (MBH) building costs

23. The MBH project commenced in 2010/11 and is split into two main components - a new build extension (£3.07 million) to accommodate the Customer Service Centre and a refurbishment of the existing building (£3.15 million). The costs of the extension had been appropriately recognised as an asset under construction, but the costs associated with the refurbishment had been charged to expenditure as they were incurred. In our view, major refurbishment costs of this type should also have been recognised as an asset as they contribute to an increase in both the life and value of the building.

24. RoS agreed to recognise the refurbishment costs as an asset and an adjustment of £566,000 has been made to the 2011/12 accounts (reducing expenditure and increasing assets) covering both professional fees and build costs that have been incurred to date. All future refurbishment costs will be recognised as an asset. Once the project is complete, a full revaluation of MBH is planned, at which time any impairment or revaluation adjustment will be reflected in the accounts.

Outlook

25. There are no significant changes to the 2012/13 FreM that are expected to have an impact on the Register of Scotland's annual financial accounts.

26. Looking further ahead, HM Treasury has issued exposure drafts which contain proposed changes to the FReM from 2013/14 in respect of:

- fair value measurement (IFRS13)
- other comprehensive income.

27. The implications of these potential changes will require to be reviewed by RoS in due course.

Financial position

28. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

29. We consider whether audited bodies have established adequate arrangements and examine:

- financial performance in the period under audit
- compliance with any statutory financial requirements and financial targets
- ability to meet known or contingent, statutory and other financial obligations
- responses to developments which may have an impact on the financial position
- financial plans for future periods.

30. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

31. Operating income increased by £9.5 million to £58.1 million in 2011/12 (2010/11: £48.6 million), the majority of which related to an increase in fees for Dealings with Whole. Income from the Customer Services Centre and rejection fees and pre registration enquiries also increased by 91% to £1.04 million.

32. Administrative costs have reduced by £6.7 million to £71.7 million (2011: £78.4 million), the main reasons being: a reduction of £3.6 million in staff costs following a staff restructuring programme, and; reduced impairment and other one-off charges affecting the accounts.

33. Despite increased income and reduced costs, RoS reported an overall loss of £10.2 million for the year to 31 March 2012. The reported loss was largely attributable to non recurring costs including: restructuring costs; permanent diminution of non current assets, and; compensation payable as a consequence of early termination of an IT service contract. The underlying deficit for the year, excluding non-recurring items, was £1.2 million.

Budgetary control

34. RoS's 2011-12 corporate plan forecast an operating deficit of £7.7 million for 2011/12, which was revised downwards in-year to £2.3 million. These forecasts excluded non-recurring costs due to uncertainty over timing and amount. The underlying deficit of £1.2 million was significantly less than budgeted levels.

35. We reviewed the RoS budget setting and monitoring arrangements and found that senior management received budget monitoring reports throughout the year with adequate explanation of key variances against budget.

Financial position

36. The Statement of Financial Position shows a net position of £69.3 million at 31 March 2012 (£79.4 million at 31 March 2011). The overall decrease of £10.1 million is due to a £7.5 million reduction in non-current assets plus a combination of movements on current asset balances, the main ones being a reduction of £9.5 million in cash and cash equivalents, an increase in work-in-progress of £1.5 million and a decrease in trade payables and provisions of £5.1 million.

37. Exhibit 1 shows how the £10.1 million reduction in the Statement of Financial Position is represented in the movement on reserves.

Exhibit 1: Analysis of RoS reserves for year ending 31 March 2012

Description	31 March 2012 £million	31 March 2011 £ million	2011-12 Reserves Movement £ million
Capital Loan	2.5	2.6	(0.1)
Retained Profits	63.5	73.7	(10.2)
Revaluation Reserve	3.2	3.0	0.2
Total Reserves	**69.2**	**79.3**	**(10.1)**

Source: 2011-12 audited financial statements

Public reporting

41. Commentary on the underlying financial picture is summarised in the annual report sections of the annual report and accounts document. This is available on the RoS website at www.ros.gov.uk.

Capital investment and performance 2011/12

42. RoS's budgeted capital expenditure for 2011/12 totalled £13.5m; £10m for IT projects and circa £3.5 million for estates. Actual expenditure on capital was £3.5m; £2.8m for the MBH project and £0.7m for IT. The under spend was largely against the IT budget, where RoS decided not to commission any further development work from its IT partner. There was also a £0.7m underspend on the MBH project which was due to delays in the work schedule.

43. The 2012/13 corporate plan shows that £6m of the capital budget has been carried forward. RoS will be undertaking a review of planned capital expenditure (following the decision to end the IT service contract) and this will be reflected in the Corporate Plan for 2013-16.

Financial planning to support priority setting and cost reductions

Achieving financial break-even

44. In 2007/08, after appropriate consultation with Ministers, RoS decided to reduce its fees and incur annual losses as part of a strategy to reduce its high level of reserves that had built up at that time. The decision to reduce fees coincided shortly thereafter with a significant down-turn in the property market, the combined effect of which has resulted in greater losses than planned. This situation was reported to Parliament in 2008/09 by the Auditor General for Scotland under Section 22(3) of the Public Finance and Accountability (Scotland) Act 2000.

45. 2011/12 is the fourth consecutive year that RoS has reported an operating loss, over which time retained profit reserves have fallen from £144 million to £69.3 million. The current corporate plan anticipates further losses in the next two years, following which operations are expected to return a surplus. Exhibit 2 below summarises RoS's recent financial results, and Exhibit 3 summarises the planned results over the period 2012/13.

Exhibit 2: Financial results 2007/08 to 2011/12

Description	2007/08 £ million	2008/09 £ million	2009/10 £million	2010/11 £ million	2011/12 £ million
Total revenue	72.7	55.6	43.5	48.6	61.4
Operating Costs	61.9	65.7	68.2	78.4	71.7
Operating Profit/loss	**10.8**	**(10.1)**	**(24.7)**	**(29.8)**	**(10.3)**
Total Reserves	**144.8**	**135.6**	**108.9**	**79.4**	**69.3**

Source: audited financial statements 2008-09 to 2001-12

Exhibit 3: RoS Financial projections

Description	2012-13 £million	2013-14 £million	2014-15 £million
Total Revenue	61.950	57.454	57.163
Total admin costs	70.450	59.743	56.937
Operating surplus/loss	(8.500)	(2.290)	0.225
Cash Reserves	**52.353**	**48.327**	**53.064**

Source: RoS Corporate Plan 2012-15

46. RoS has taken action to reverse losses by increasing fees (effective January 2011) and reducing costs, and has updated its reserve management strategy to reflect these and other events. However, significant asset impairments in 2010/11 and 2011/12 have negated the impact of increased fee income and planned cost savings in the short term. There is also some uncertainty over the future success of these measures given continued weakness in the property market; further restructuring costs and; the possibility of additional impairments and other abnormal costs that could arise.

47. Achieving financial balance within the planned timescale remains a significant challenge given the uncertainties involved and continuing trading conditions. While RoS retains significant cash reserves, which will be sufficient to meet anticipated losses over the next few years, effective longer term financial and business planning is required to ensure a sustainable financial position over the medium and long term. This will include keeping the reasonableness of financial assumptions under review and exercising close control over costs. The underlying financial position is also expected to be a key consideration informing the Scottish Government's future policy on fees and charge levels.

Refer Action Plan No 1

Workforce reduction

48. A key part of RoS's cost saving strategy has been workforce reduction. RoS offered a voluntary exit scheme in 2010/11 which resulted in 128 staff leaving at a cost of £6.4 million. A further scheme in 2011/12 resulted in 126 staff leaving at a total cost of £3.8 million.

49. The 2010/11 voluntary exit scheme has had an impact on operating costs in 2011/12, with staff costs reducing by £3.6 million and further recurring savings expected in 2012/13 onwards. RoS expects to incur circa £4 million in restructuring costs in 2012/13. The costs of any further workforce reduction in future periods have not yet been built into financial projections appearing in the corporate plan.

Outlook

50. It is critical that RoS achieves financial balance in the medium term, ensuring its underlying finances are sustainable. Continuing economic and trading conditions and the uncertainties about the volume of future business are inherently risky and challenging to manage.

51. Further financial pressures will also result from business developments including changes to land registration requirements and planned involvement in the collection of devolved land transaction taxes.

52. Cash reserves provide some resilience in the short term, but have been reduced by 50% in the last four years and will need to be carefully managed going forward.

Governance and accountability

53. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.

54. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

55. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:

- corporate governance and systems of internal control
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

56. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

57. We found that RoS's corporate governance arrangements were broadly in line with that required by the Scottish Public Finance Manual, and operated satisfactorily during 2011-12. There is a requirement to improve arrangements in some important areas.

Processes and committees

58. The RoS Board is chaired by the Chief Executive (who is also the Keeper - a statutory office holder) with a membership of 9 executive directors and 4 non executive directors. It functions in an advisory capacity and supports the Chief Executive/Keeper and the Accountable Officer in their respective roles. The Board is supported by the Audit Committee (which advises on corporate governance arrangements including risk management, performance management, systems of internal control and assurance arrangements) and the Executive Management Team. Three members of the senior management team were added to the Board membership during the year, but the composition of the Audit Committee remained constant in 2011/12. There are a number of rotational changes pending in 2012/13 regarding the non-executive membership of the Board and the independent members of the Audit Committee

59. The Audit Committee comprises 1 non-executive director and 3 independent members, and meets 4-5 times a year. The Executive Management Team meets monthly and is chaired by the Accountable Officer who meets regularly with the Chief Executive to discuss operational matters.

Roles and responsibilities

60. Section 70 of the Scotland Act 1998 requires members of staff of the Scottish administration to be designated as answerable to the Scottish Parliament in respect of expenditure and receipts (Accountable Officers). The Keeper of the Registers of Scotland is a statutory office holder and not part of the staff of the Scottish Administration. Under Section 70, the Keeper cannot be designated as Accountable Officer. RoS therefore has a separate Chief Executive (the Keeper) and Accountable Officer (Deputy Keeper).

61. The respective responsibilities of both roles are set out in the organisation's framework document. Notwithstanding this, the arrangement carries some inherent risk of uncertainty or conflict between the roles. While the manner in which the current post-holders have managed this situation has not led to any significant difficulties, in our view further clarification of how the two roles relate to one another in practice and how any disagreements should be resolved would help better mitigate risks.

62. We raised this matter with RoS as part of our interim reporting, with a recommendation that it considers developing a memorandum of understanding or other protocol to govern this area. RoS did not accept the recommendation, but advised that the matter had been drawn to the attention of the Scottish Government and would be considered as part of an impending review of Framework Guidance for non-ministerial departments. We will monitor developments in this area as part of our 2012/13 audit.

Refer Action Plan No. 2

Risk Management Arrangements

63. RoS maintains a risk register that is in line with the requirements of the Scottish Public Finance Manual. The register is subject to regular review, including consideration as a standing item at Board, Executive Management Team and Audit Committee meetings.

64. In our interim management letter we noted that the risk scoring system applied by RoS appeared to give undue weight to planned actions or those that had yet to be fully implemented or assessed, resulting in potentially lower overall assessments than current situations merit.

65. RoS has taken action to address this and risk scores have been revised upwards in some instances. Revised guidance on risk assessment is also being developed and will be backed up by additional training. This will help strengthen existing arrangements.

Disaster Recovery Plan

66. Deficiencies in disaster recovery arrangements have been recognised by RoS management, and raised several times by auditors in recent years, but action to address these remains outstanding. We have been advised that the development of a viable disaster recovery plan has been delayed due to continuing uncertainties associated with the early cancellation of the IT service contract and the consequential transfer of related functions.

67. The absence of a disaster recovery plan means that it is not clear how RoS would recover ICT operations in the event of a real disaster involving MBH and/or the IT system. The situation is exacerbated by RoS's reliance on relatively old IT equipment, based on 12 ageing servers. The Chief Information Officer estimates it would require a number of weeks to recover the registers.

68. RoS has recognised the importance of this issue, but development of arrangements has been delayed by issues associated with the IT contract (see below). It expects to be in a position to begin development of a partial disaster recovery plan by the beginning of November 2012.

Refer Action Plan No. 3

Business continuity following early termination of IT service contract

69. During the period that RoS's IT services have been administered by the service provider, RoS reduced its internal IT capacity to a few key roles relating mainly to supervision of the contract arrangements and liaison with provider staff. Following a decision in March 2012 to end the IT service contract early, RoS is re-building its internal IT capacity and expertise in order to take over the operation and management of IT services. The contract contains provisions governing transitional arrangements whereby the provider will supply technical support during and after the handover of responsibilities to RoS. Nevertheless, ensuring the effective transition of these responsibilities back to RoS presents a major risk to business continuity in the short to medium term.

70. To address this risk, RoS has recruited senior IT staff and consultants to manage the transition of these functions back to RoS, and are in the process of recruiting other staff to meet operational responsibilities. RoS has also set up a Transition Programme led by the Accountable Officer, and has sought expert advice from an external source on their preparedness for exit. RoS also intends to instruct a Gateway review of the transition process. An updated IT strategy covering the transitional period and future requirements has been developed, but a detailed operational plan to support the strategy has still to be prepared.

71. Agreement has been reached that the IT partnership agreement will cease on 30 November 2012. From that date all IT assets and services currently provided under the partnership agreement will revert to RoS control.

72. Whilst we recognise the progress made to date, there remain significant uncertainties that impact on the effectiveness of RoS's transition arrangements (the relatively short timescales involved, the scale and complexity of issues associated with the handover, the difficulties associated with recruiting appropriate staff in this specialised area, and other pressing matters such as meeting development targets associated with the new Land Register Act). It is therefore important that a detailed operational plan to lead and implement the approved IT strategy is prepared as soon as possible.

Refer Action Plan No. 4

Support for independent challenge on IT issues

73. RoS's business is heavily dependent on Information Technology (IT) systems. The outsourced service contract has proved problematic and the decision has been taken to terminate this early. The Board and Audit Committee have recognised the risks associated with this, and have been active in managing and reviewing these.

74. In our interim management letter we noted that non-executive directors sitting on the Board and Audit Committee are largely dependent on reporting and advice from executive directors in relation to more specialised aspects of arrangements for the management and development of IT, and that this could limit the effectiveness of their challenge role in some areas that are important to RoS's success. We recommended that RoS review the skill mix and related support to non-executive members in these specialist areas when next refreshing the non-executive appointments. RoS accepted the recommendation and indicated that it would apply these criteria to pending and future non-executive director appointments.

Internal control

75. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.

76. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements. Whilst no major findings arose from our review of internal control systems, we identified a small number of control weaknesses where improvements could be made to existing arrangements.

77. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of ISA610 (Considering the Work of Internal Audit). We completed a review of the internal audit function and concluded that the work of RoS's internal audit service is carried out in accordance with Government Internal Audit Standards.

Governance statement

78. Commencing 2011/12, the Statement of Internal Control previously included in central government accounts was replaced by a Governance Statement. In accordance with Scottish Government guidance, the Governance Statement should include a description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. We are satisfied that RoS's Governance Statement complied with the guidance.

Prevention and detection of fraud and irregularities

79. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.

80. RoS has appropriate arrangements in place (based on the Scottish Public Finance Manual) to help prevent and detect instances of fraud and irregularity including detailed policies in the Code of Conduct and the RoS Staff Handbook. There were no instances of fraud or irregularity reported by RoS in 2011-12. In addition, RoS puts in place various measures to help prevent and detect external fraud resulting from unauthorised use of, or changes to, the various registers that it maintains.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

81. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.

82. We are satisfied that RoS has adequate arrangements in place (based on the Scottish Public Finance Manual) to meet its responsibilities in this regard.

Outlook

83. The current environment of significant organisational change, challenging trading conditions and increasing responsibilities is one in which the organisation's governance and accountability arrangements will be tested.

84. Key changes ahead will include implementation of the Land Registration etc. (Scotland) Act 2012, and support for the collection of Land and Buildings Transaction Tax from 2015. Effective management and oversight of these areas and of changes to IT service arrangements will be essential, with some immediate challenges in ensuring continuity of service following the end of the current IT partnership agreement.

Best Value, use of resources and performance

85. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.

86. As part of her statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We may be requested from time to time to participate in:

- a performance audit which may result in the publication of a national report
- an examination of the implications of a particular topic or performance audit for an audited body at local level
- a review of a body’s response to national recommendations.

87. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

88. This section includes a commentary on the best value and performance management arrangements within RoS. We also summarise headline performance measures used by RoS, highlight any relevant national reports and comment on the body's response to these.

Management arrangements

Best Value

89. Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes an organisation needs to focus on in order to deliver the duty of best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

90. The previous auditors reported that RoS has not formally updated its overall approach to Best Value since 2007-08 and recommended that RoS complete a further review of its performance in relation to updated guidance issued by the Scottish Government. We understand that RoS has not yet implemented this recommendation.

Refer Action Plan No. 5

Performance management

91. RoS has the key elements of an effective performance management framework in place.

92. The Corporate Plan 2012 - 2015 sets out the aims and high level priorities for RoS over the current spending review period and includes key objectives which supports the Scottish Government's Strategy to drive sustainable growth and develop a more resilient and adaptable economy. The Keeper also set seven business targets for 2011-12 as a means of monitoring operational efficiency.

93. RoS has stated its commitment to the protection of the environment, in line with Scottish Ministers commitment to sustainable development. RoS has set targets to achieve a year on year reduction of 2.5% in energy consumption and paper usage and a 1% reduction in landfill.

94. Progress and performance information is provided quarterly to the RoS Board and the quality of service is measured through the achievement of KPIs and service indicator measures. Annual performance is reported in the RoS *Annual Report and Accounts*

95. Internal audit reviewed RoS's Key Performance Indicators in 2011 and reported that RoS's Performance Indicators covered internal and external factors and encompassed both financial and non-financial measures. The 2012-15 Corporate Plan demonstrates that strategic objectives, and KPIs, have been aligned to Scottish National Outcomes.

96. Prior to 2010-11, Scottish Ministers had routinely set the Keeper a financial target to achieve a specified return on capital employed. This was removed in 2010-11. Since then RoS has been required to achieve cash releasing efficiencies each year: 2% for the year to 2010-11 and 3% for 2011-12.

Overview of reported performance in 2011/12

Performance Targets

97. Exhibit 4 highlights RoS's performance against the seven business targets set by the Keeper for 2011-12. Of these, RoS has reported that it had achieved three and narrowly missed two of these targets. In the remaining areas reported performance is close to target and represents and improvement on previous years.

98. RoS has also reported that:

- it had achieved all of its environmental targets for 2011-12.
- it delivered 7.5% cash releasing efficiencies in 2011-12, largely due to reduced staff costs following the workforce restructuring programme undertaken in 2010-11 and 2011-12.

Exhibit 4: Performance targets and reported outturn

Target	Outturn	Comment
80% of Sasines writs being despatched in 20 days	Exceeded.	All Sasine Deeds received were dispatched within 20 days
Complete the registration of non-ARTL Dealings with Whole (DWs) and First Registrations (FRs) within an upper limit of 120 working days. 80% to be completed within 60 working days.	Exceeded	99.2% of standard FRs were completed within 60 working days (This compares with 96.5% in 60 working days the previous year.) 98.8% of non-ARTL DWs were completed within 60 working days (This compares to 99.0% in 60 working days the previous year.)
Complete the registration of DWs carried out as ARTL transactions within 24 hours	Missed	99.99% achieved. Only one application out of 14,887 was not completed within the timescale.
Record all applications for registration on the application record within one working day.	Missed	99.9% achieved. Over 200 were missed due to industrial action and on a separate occasion 43 were unable to be recorded due to an IT failure
Complete pre-1 April 2011 First Registration casework by 31 March 2012	Missed	95% achieved. This was missed by only a few hundred complex cases and we made significant inroads in reducing arrears in FRs. The level of arrears is now at its lowest level since the 1990s.
Complete a further 32,000 TP applications by 31 March 2012	Exceeded	Target reached on 29 March. In total, 32,429 completed by 31 March 2012
Achieve a headline 95% customer service satisfaction level for registration accuracy and customer care	Missed	90% achieved. We moved to the Public Sector Quality Index to allow us to compare with other public sector bodies. Although the target was missed this is still an excellent score. We continue to hone our research to make sure we get the most insight we can about where we need to improve

Source: RoS Performance and Financial Management Report (May 2012) and audited financial statements 2011-12

National performance audits

99. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year that may be of interest to RoS are listed in Exhibit 5.

Exhibit 5: A selection of national performance reports 2011/12

- Managing ICT Contracts: an audit of three public sector programmes
- Minimising green house gases
- Scotland's Public Finances - addressing the challenges

Source: www.audit-scotland.gov.uk

100. While RoS has considered extensively national performance audit reports that refer directly to the organisation, the findings and learning points from other performance audit reports are not routinely considered at a senior level (for example by the board, management team or audit committee).

Refer Action Plan No. 6

Managing ICT contracts

101. Audit Scotland published a report in August 2012 on the management of three ICT contracts by public sector bodies in Scotland. One of the organisations examined in the report was the Registers of Scotland. The report highlighted significant weaknesses in the management of the three public sector information technology projects, worth a combined £107 million. Many of the problems stemmed from a lack of specialised skills and experience. But there were also weaknesses in basic project management and control.

102. In the case of RoS, the report found that the business case was developed after evaluation of a wide range of options. However, the business case lacked clear definition of expected benefits from preferred partnership style option and insufficient recognition was given to the importance of business change within the programme.

103. Individual projects lacked detailed cost, benefits and milestones, and contributed to a lack of ownership for cost and time overruns. Progress reporting on individual projects failed to identify that the programme as a whole was behind schedule and overspend was likely.

104. A crucial factor was that the terms of the Strategic Partnership Agreement meant that the service provider was also intended to have an 'Intelligent Client' role. This contributed to RoS having insufficient in-house ICT skills and experience with which to understand and manage the interdependencies of individual projects, resulting in some ICT projects being delivered late or not at all.

105. The report recommended that the Scottish Government consider the value of providing a central resource of specialised IT expertise and advice. It also needs to comprehensively review how it can best support and oversee public bodies undertaking significant projects.

106. While there are no recommendations in the report aimed directly at RoS, it is clearly essential that RoS identifies and applies the leaning points highlighted in the report and from its own experience more generally in the manner in which it manages its IT provision.

Refer Action Plan No. 7

Outlook

107. Ensuring that RoS performs well and meets its key objective business objectives during a period of significant organisational change will be a challenge going forward. The Board needs to ensure that its management and governance structures are operating effectively to monitor and scrutinise performance effectively.

108. In April 2011, the Equality Act 2010 introduced a new public sector ‘General Duty’ which encourages equality to be mainstreamed into public bodies’ core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of ‘Specific Duties’ which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the ‘General Duty,’ including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	November 2011	November 2011
Key financial controls assurance report	August 2012	August 2012
Report on financial statements to those charged with governance	August 2012	August 2012
Audit opinion on the 2011/12 financial statements	August 2012	August 2012
Final Audit Management Letter	August 2012	August 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	44	**Achieving financial balance** RoS has incurred operating losses for the past four years and anticipates further losses over the next two years, following which it expects to return to profitability. ***Risk: There are significant uncertainties surrounding RoS's plans, including volatility in the property market, that could impede achieving profitability in the short to medium term.***	Agreed. RoS reviews its reserves on an ongoing basis and formally reviews fees every two years. A fee order will be needed in 2014 for land registration requirements. Movement in the property market is continuously monitored to inform planning . Cost of running transferring IT services in house and development activities for legislative and business initiatives and change need to be fully evaluated	John Fanning John Fanning	Ongoing By end March 2013
2	60	**Roles and responsibilities of the Chief Executive and Accountable Officer** There is an inherent risk of uncertainty or conflict between the roles of Keeper and accountable officer. ***Risk: There is an absence of clarity about how these two clear roles relate to one another or how disagreements should be***	The Framework Document for RoS is being redrafted . We are proposing a link from the AO to the Director General (DG) as Portfolio AO by obliging the AO to consult the DG on areas of inconsistency with the AO's duties on financial regulatory or	Catriona Hardman	Early 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		resolved.	propriety grounds .		
3	66	**Absence of IT Disaster Recovery Plan** This has been raised several times by auditors in recent years and remains outstanding. ***Risk: The absence of a viable disaster recovery plan increases the risk of RoS not being able to recover its business capability in the event of a major IT system failure (with potentially significant implications for the Scottish property market and wider economy).***	As part of our Business Continuity Management Systems project all RoS directorates have been required to identify core information and how it would be provided in the event of an interruption. The IT directorate will undertake this work once the BT transition is complete In the medium term we will address this issue by re- platforming legacy systems, removing hardware vulnerability and introducing the ability to run systems outwith Meadowbank House	Iain Campbell Iain Campbell	By March 2013 October 2013
4	69	**Ensuring business continuity** The transfer of IT functions back to RoS from an external provider represents a significant challenge in terms of re-building its IT function and at the same time maintaining operational and development capability. ***Risk: RoS may not be able to re-establish an effective IT function within the time frame required, thereby***	Post Transition project all IT and business areas set up to ensure RoS has capability to run services from 30/11/12. Transition project and individual work streams complete only once RoS has control of services A follow up project will pick up on service issues and changes	Iain Campbell	30 November for initial transfer Ongoing issues to March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		jeopardising its operational and development capability.	required post transition		
5	89	**Delays in updating Best Value guidance** RoS has not formally updated its approach to Best Value since 2007/08. Internal audit highlighted the omission in 2010/11, and it remains outstanding. ***Risk: RoS may fails to demonstrate compliance with Best Value requirements.***	We will revise our approach to incorporate the most recent Best Value guidance and demonstrate the extent to which we meet the Best Value requirements.	John Fanning	March 2013
6	100	**Considering national performance reports** The findings and relevant learning points from national performance audit reports are not routinely considered at a senior level. ***Risk: There is a risk that the non executive directors are not provided with the opportunity to challenge and monitor progress on recommendations raised in national performance reports which are relevant to the organisation.***	We will provide a periodic summary of the key points from national performance reports to the RoS Audit Committee. That Committee can consider the reports and identify appropriate actions and responses for the organisation as a whole.	John Fanning	March 2013
7.	101	**Managing ICT contracts** An examination of the management of three ICT contracts by public bodies in Scotland found significant weaknesses in the management of RoS ICT	RoS has identified lessons learned and will apply in future development and governance and will continue to conduct Project Performance	Sheenagh Adams / Catriona Hardman	March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		partnership contract. ***Risk: RoS fails to identify and apply learning points identified in the report and from its own experience.***	Reviews routinely. RoS will now fall within the ambit of SG proposals for a Strategic Corporate Services Board (SCSB)and will be part of central SG ICT skills review		