AUDIT SCOTLAND

REGISTERS OF SCOTLAND

Annual report on the 2013/14 audit

Prepared for Registers of Scotland and the Auditor General for Scotland

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Contents

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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.
- Net impact of all audit adjustments was to increase net assets, and surplus, by £88,000 (less than 1% of reported surplus).
- RoS has impr oved the format of its accounts providing more relevant information on income and expenditure, and is considering the introduction of segmental reporting.

Financial position

- RoS returned to profitability in 2013/14 after losses over 5 years, reporting a £10.983 million surplus.
- Income was up 9% and operating costs down 11% when compared with 2012/13.
- Capital expenditure of £4.435 million, as a result of investments in IT & buildings.
- Retained profits carried forward of £72.019 million.
- Financial management remained strong with a robust budget management process.

Governance & accountability

- RoS had satisfactory governance arrangements in place, although concerns identified about capability in relation to IT Development. Corrective action being taken.
- RoS had an effective internal audit function and satisfactory anti-fraud arrangements.
- Disaster recovery arrangements improved, with continuing work needed.

Best Value, use of resources & performance

- A well developed framework in place for monitoring and reporting performance operated effectively during 2013/14.
- RoS reported that both Ministerial targets for efficiency and increasing commercial income were met, and that service standards improved in 2013/14.

Outlook

- 2014/15 will be a critical and challenging year in terms of delivering the requirements of new legislation against fixed timetables - Land Registration Act 2012 and Land & Buildings Transaction Tax Act 2013.
- Financial plans and reserve strategy will need to be kept under review to realise the full benefits of Land Registration and additional activity required to complete the register over the next 10 years, against a backdrop of changing market conditions.
- Continuing improvements need to be made to IT provision and oversight.

Introduction

This report is a summary of our findings arising from the 2013/14 audit of Registers of Scotland (RoS). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of RoS, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of RoS is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to RoS and the Auditor General for Scotland and should form the basis of discussions with the Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

This report will be published on our website after it has been considered by RoS.

Audit Scotland has issued a number of reports, both local and national, during the course of the year that have relevance to this audit. The local reports issued during the year have been listed in Appendix I. 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. National Reports are considered on pages 17 and 18.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix II sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Appendix III 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 "Management action/response".

We recognise that not all risks can be eliminated or even minimised. What is important is that RoS understands its risks and has arrangements in place to manage these risks. RoS and the Accountable Officer should ensure that they are satisfied with proposed management actions and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Surplus and Reserves	Income	Expenditure	Capital Expenditure
2013/14 Surplus £10.983m	Income- continuing operations £62.554m	Operational expenditure £46.042m	Capital expenditure £4.435m
Retained profits £72.019m	Increase of £5.185m (9%)	Decrease of £5.489m (10.6%)	Non current assets £12.236m

Audit opinion

We have given an unqualified opinion that the financial statements of RoS for 2013/14 give a true and fair view of the state of its affairs and of its net operating profit for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the Management Commentary (Strategic and Directors' Report), Governance Statement and the Remuneration Report. We have nothing to report in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Accountable Officer.

No issues require to be reported.

Accounts submission

We received the unaudited financial statements on 6 May 2014, in accordance with the agreed timetable. The financial statements were supported by a comprehensive set of working papers and schedules and audit testing was substantively complete by 2 June 2014.

We received a revised version of the accounts on 9 June 2014 with the only outstanding section being a complete Remuneration Report. RoS were not able to complete this section due to My CSP not providing pension information timeously.

Action Point 1

The accounts were finalised on 23rd July 2014, and the Accountable Officer signed them on 27th August 2014.

Accounting issues arising

A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The net effect of these adjustments was to decrease expenditure (therefore increasing retained profit) and increase net assets by £86,000 (less than 1% of surplus). The more significant issues related to:

Format of the Statement of Comprehensive Income (SoCI)

Improvements have been made to format of the SoCI and related disclosure notes in 2013/14. Income has been split into that earned from registration and commercial activities, and additional information on costs has been provided in note 4. We acknowledge the work that RoS has done in this area during the year to make reported information more relevant. Going forward, RoS is considering the introduction of segmental reporting. Reporting income and costs incurred for its current business segments separately will provide more informative and transparent information to management and stakeholders. This will become more important as RoS expands its commercial activities as a result of the new powers granted under the Land Registration etc. (Scotland) Act 2012.

We have been advised that work will be undertaken to improve the mapping within general ledger to make reporting in this manner more efficient and accurate.

Action Point 2

Non-Current Asset Register (NCAR)

The reconciliation between the NCAR and the ledger identified a number of differences with an overall net impact of £28,000 in the Net Book Value of IT hardware and software assets. This difference had been caused by the brought forward balances of assets, Gross Book Value (GBV), and accumulated depreciation being out of alignment. RoS were aware of some of these discrepancies and have agreed to review and cleanse the NCAR.

Action Point 3

Errors in the classification of revenue and capital expenditure

During our interim audit work we identified a number of instances where IT purchases that met the criteria for being capitalised as intangible assets, as set out in IAS 38, had been treated as revenue expenditure. This issue was reported in out Interim Management letter in April 2014 and as a result the finance team undertook an exercise in conjunction with IT services to review a number of IT purchases to ensure that they had been classified correctly. This work gave us additional assurances that IT purchases were being treated consistently and correctly.

We identified one further item of IT hardware with a value of £54,000 during our final accounts work that had not been capitalised. RoS made an appropriate adjustment for this in the accounts.

Action point 4

Incorrect depreciation charges were applied to assets

We identified an asset that had been purchased in March 2014 to which a full year's depreciation charge of £209,000 had been incorrectly applied. We also identified a number of other assets where the incorrect depreciation charge, or indexation and backlog depreciation charge had been applied.

RoS adjusted for these errors and have put procedures in place to mitigate the risk of this happening again.

Incorrect treatment of accruals

Improvements were made to the process for identifying accruals at year end. However, we identified two invoices totalling £90,000, which had been accrued but had actually been paid prior to 31 March 2014. This meant that expenditure and accruals had been overstated by £90,000.

RoS adjusted for these errors and have put procedures in place to mitigate the risk of this happening again.

Report to those charged with governance

We presented our report to those charged with governance (ISA 260) to the Audit Committee on 6 August 2014. The primary purpose of this report was to communicate the significant findings arising from our audit prior to finalisation of the independent auditor’s report. The main points raised have been summarised in the previous paragraphs.

Outlook

The financial statements of Registers of Scotland are prepared in accordance with the Government Financial Reporting Manual (the FReM). The main new standards to be adopted in 2014/15 are:

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities.

Compliance with FReM is mandatory; however, the impact of the adoption of the new standards is unlikely to be significant to the financial statements of Registers of Scotland.

Financial position

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

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.

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

Financial results

Annual Outturn

RoS returned to profitability in 2013/14 after experiencing losses in each of the previous five years. RoS reported a retained surplus of £10.983m for the year ended 31 March 2014 compared to a loss of £2.493m for the year ended 31 March 2013. This favourable position was due to a combination of:

- increased volume of registrations
- change in mix of cases towards more profitable work
- significant progress in reducing arrears in caseloads. This benefits RoS as revenue can only be recognised when completed work is despatched.

Income from continuing operations increased by £5.184m to £62.553m (2012/13: £57.369m), the majority of which related to increased income from Dealings with Whole (£3.963m increase), and Transfers of Part (£1.318m increase) due to the upturn in the housing market in the second half of the year.

Staff costs decreased by £1.319m to £32.737m (2012/13: £34.056m) and administrative costs decreased by £4.440m to £13.305m (2012/13: £17.475m). The reduction in staff costs can be largely attributed to the restructuring programme in 2012/13, whereby 152 employees accepted an exit package. In addition to these costs, RoS incurred a non-recurring impairment charge of £2.057m due to the revaluation of Meadowbank House in September 2013.

Budgetary Control

RoS's Corporate Plan 2013-16 forecast a deficit of £1.246m for 2013/14, with a return to profit not being forecast until 2014/15.

RoS revised this forecast deficit twice during the year as the increased activity in the housing market began to take effect. By the end of January 2014 RoS was projecting a profit of £8.705m; the actual year end position was £2.278m above this forecast. The unpredictability of the market in which RoS operates presents challenges for budgetary control.

We reviewed RoS's 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. Changes to the forecasts were also clearly explained, and supported by statistics on work flow.

However, we noted in our interim management letter that we had identified an error in a formula within the budget monitoring workbook which meant that some of the capital expenditure figures reported to the Board in December were incorrect. RoS rectified this error and have undertaken a review of this workbook and budget monitoring process more generally.

Financial Position

RoS reported that they met Ministerial financial targets for efficiency and commercial income generation in 2013/14. As a trading fund RoS' net asset position and levels of reserves are important as these need to be maintained at a level that helps protect RoS's long term sustainability.

The Statement of Financial Position shows a net asset position of £75.460m at 31 March 2014 (£66.901m: 2012/13). The overall increase of £8.550m is due to an increase in trading performance leading to an increased level of reserves. This was offset by a downward movement of £2.299m in the Net Book Value (NBV) of property plant and equipment, largely caused by the revaluation of Meadowbank House.

RoS's retained profit reserve was £72.019m at 31 March 2014 (2012/13; £61,036m). RoS's status as a Trading Fund means that it does not receive direct funding from the Scottish Government. Therefore, it must use its income and reserves to fund its operational and investment activities.

Historical perspective

RoS' financial performance and position is sensitive to property market activity, management of its cost base and fee levels approved by Ministers. In 2008/09 the Auditor General drew the attention of Parliament to the effect of the economic downturn on RoS' financial position and plans. At that time RoS expected operating losses to continue at least until 2013/14, with aggregate losses of over £90 million across a 6 year period – reducing reserves to around £37 million.

The position has been subject to continuing review throughout this period. Ultimately, aggregate losses of around £71 million were experienced over a 5 year period, with reserves falling to a low of £61 million in 2012/13. RoS is now benefiting from reductions in its cost base, alongside an uptake in property market volumes. The trading fund model has meant that losses did not fall directly onto the Scottish Government's budget, and enabled RoS to avoid any significant fluctuations in fees throughout the economic downturn.

Capital Expenditure

RoS spent a total of £4.435m (2012/13: £3.701m) on capital projects during 2013/14. The majority of this spend related to IT hardware and software purchases, and in-house software development, including improving and stabilising the current Land Registry System (LRS) to ensure that it is capable of dealing with the requirements of the Land Registration etc. (Scotland) Act 2012 (LRA 2012) from the designated day of 8 December 2014.

The Corporate Plan 2013-16 set a capital budget of £8.352m for 2013/14, however a downward adjustment of £1.062m was made to this budget in January 2014 when a review indicated that this amount was no longer required. RoS ended the year with a capital underspend of £2.900m largely due to the capitalised staff time being less than that budgeted for, as well as there being delays in the network refresh programme.

During 2013/14, RoS continued to work with Revenue Scotland and key stakeholders and developed a framework outlining how the user-facing website for the online collection of Land and Buildings Transaction Tax (LBTT) might look and operate. In January 2014 Revenue Scotland took the decision to create a centralised tax collection system, meaning that RoS would no longer act as the collecting agent.

RoS has recovered the costs incurred to date (2013/14: £138,580) on this project and will still have a critical role to play in the development of the LBTT collection system, policies and procedures going forward – helping to ensure an appropriate degree of integration between registration and tax collection.

Financial sustainability

RoS's financial planning arrangements include regular monitoring, reporting and updating of the corporate risk register to ensure that the focus is maintained on financial performance and that action is taken on any emerging issues.

RoS 's Corporate Plan 2014-17 indicates a surplus position in each of the three years; a significantly improved position from that forecast in the 2013-16 Corporate Plan, reflecting the increased activity in the property market.

	2014/15	2015/16	2016/17
Turnover (£'m)	70.5	76.9	75.4
Operating Costs (£'m)	55.8	55.9	55.4
Op Surplus/(Loss) (£'m)	14.7	21.0	20.0

Future cost reductions

New land registration rules coming into force in December 2014 are expected to allow RoS to reduce its registration transaction costs in time. This will result from the introduction of more straightforward registration processes, and the development of new processing systems. RoS is developing its plans to achieve these cost reductions.

Fee review 2014

Following review and public consultation, the Scottish Ministers issued a revised fees order in June 2014, coming into force from December 2014 for the next two years. This retained fees at existing levels, with some simplification in a small number of areas. The Order also authorised the Keeper to vary any fee by a maximum of £10 up or down in the period between bi-annual fee reviews to protect the overall financial position, subject to ministerial consultation and a 3 month notice period.

Completion of the Land Register

In July 2014 RoS launched a public consultation on completion of the Land Register. This followed Scottish ministers' invitation to the Keeper to complete the Register in 10 years, including registering all public sector land within five years. This sets out a number of proposals for managing the financial implications:

- The initial focus in the first five years of the completion programme will be on voluntary registrations and those triggered by transactions (such as registering standard securities). Voluntary registration fees will be reduced by 10% to promote these, and waived in some circumstances.
- The main cost burden will arise from new Keeper Induced Registrations (KIR) where no fee is recoverable. While these will be piloted, KIR is likely to be a matter for the latter 5 years. The Keeper will look to cover these costs by growing reserves, through efficiencies rather than any fee increases. This will be enabled by the deployment of resources available from more efficient registration process and the eradication of previous processing backlogs.

Financial plans and reserve strategy

The purpose of the reserves policy is to ensure that reserves are managed in a way to safeguard long term sustainability. RoS' reserve policy is reviewed every six months by management, the Board and the Audit Committee with the most recent review taking place in April 2014. This identified anticipated future reserve levels and earmarked amounts to cover future fluctuations in the housing market, potential future indemnity claims, restructuring costs arising from the introduction of new land registration systems and extension of the land register.

Scottish Ministers have proposed that the Scottish Land Register be completed within the next 10 years and RoS is consulting at the moment on how to best achieve this. RoS is considering the implications for its reserve strategy and financial plans – in discussion with the Scottish Government. In doing so, it is critical that robust plans are developed which show how proposals to complete the register while avoiding any significant increases in fees can be delivered – providing clarity about how existing resources can be redeployed and more efficient approaches introduced. These need to be underpinned by a soundly based reserve strategy, which should continue to be kept under regular review.

Scottish ministers are required to set financial targets for RoS which have regard to the requirement to break-even taking one year with another. Current proposals anticipate that RoS will remain in surplus over the medium term. RoS will need to work with the Scottish Government to agree financial targets that are consistent with legislative requirements and its overall financial strategy.

Workforce reduction

RoS did not offer a formal exit scheme in 2013/14, however, three people left on voluntary exit terms as a result of focussed restructuring. This brings the total number of staff who have left under an early exit scheme to 306.

Total staff costs (excluding restructuring costs) reduced by £1.319m to £32.737m in 2013/14. However, within that, agency staff costs increased by £0.945m to £1.512m (2012/13: £0.567m). This helped RoS to deal with the sudden increase in intakes experienced during the year, but highlighted the challenges on capacity in some areas. This combined with other factors such as prioritising the clearance of arrears, and the work involved for the LRA and transition projects, meant RoS had to employ a significant number of agency staff to maintain service standards.

Continued reliance on agency workers to this extent may present risks to plans to achieve longer term sustainability, and RoS will need to monitor any pressures on workforce capacity.

Action point 5

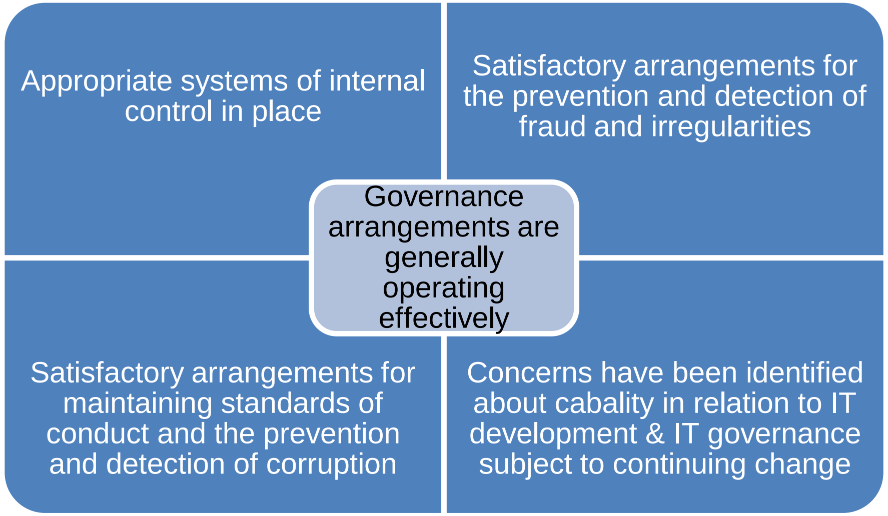
The holiday pay accrual increased substantially during 2013/14. This indicates that more staff carried forward annual leave days into the following year than in previous years. In contrast, the average working days lost due to sickness absence decreased by two days per employee during 2013/4.

Outlook

RoS's Corporate Plan 2014-17 anticipates increasing surpluses over the next three years as the housing market continues to recover and as a result, cash reserves will continue to increase. RoS is revising its reserves policy, for agreement with the Scottish Government in 2014/15.

The corporate change programme including plans to implement new registration approaches and complete the register will present significant resource planning challenges in 2014/15 and subsequent years. RoS will have to maintain strong financial management to ensure they have the right resources and capacity to ensure that planned are delivered.

Governance and accountability



RoS, through its Accountable Officer/Deputy Keeper, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of RoS and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

The corporate governance framework within RoS is centred on the RoS Board which is supported by the Executive Management Team (EMT), and Audit Committee. The RoS Board functions in an advisory capacity and supports the Chief Executive (Keeper) and the Accountable Officer in their respective roles. As at 31 March 2014 the Board consisted of 6 Executive Directors and 4 Non-Executive Directors.

Based on our observations, completed audit work, and relying on the work of Internal Audit, our overall conclusion is that the governance and internal control arrangements within RoS generally operated effectively during 2013/14. The Governance Statement highlighted concerns about the effectiveness of IT Development capability fully to deliver planned legislative changes on time. As a result, RoS has made changes to the overall IT approach and project resource. We comment further on this area below.

There are a number of changes to senior staffing. The Accountable Officer/Deputy Keeper gave notice of her intention to retire during 2014/15, albeit a successor has now been appointed. The Legal Services Director returned to the Scottish Government in December 2013, and the Chief Technology Officer (CTO) resigned in February 2014 with immediate effect. The Keeper has taken the opportunity to review and revise the senior management structure within the organisation.

In the interim, the Chief Technology Officer role has been assumed by the Deputy Keeper, with the Director of HR and Estates assuming the responsibilities for the team that previously reported to the Director of Legal Services. The terms of office of 2 Non-Executive Directors have been extended by one year to provide continuity and to enable the current RoS Board to oversee the implementation of the 2012 Act and LBTT.

Internal control

As part of our audit we reviewed the high level controls in a number of RoS's systems that impact on the financial statements. This audit work covered the general ledger, trade receivables/income, cash and banking. Our overall conclusion was that RoS had appropriate systems of internal control in place during 2013/14.

Governance Statement

Registers of Scotland included a governance statement in its annual accounts in accordance with Scottish Government guidance. The statement included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. We confirmed that the statement was prepared in line with guidance and that relevant risk and issues have been included.

Internal audit

Internal audit provides RoS and its Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. In addition, in an effort to avoid duplication, we place reliance on internal audit work where appropriate. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work.

Our review of internal audit was carried out in February 2014 and concluded that the internal audit service provided by PricewaterhouseCoopers operates in accordance with Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

ICT & Review of major projects

During 2013/14 we performed follow up audits to our 2012/13 Computer Services Review, and our Managing ICT Projects national performance report published in 2012 (in which RoS featured heavily). We also considered progress in implementing the required arrangements for Land Registration and Land & Buildings Transaction Tax. The key messages are summarised below:

ICT arrangements

RoS occupies a key role in the Scottish economy and robust, dependable, IT systems are vital to the delivery of its business. Since our reports were published RoS has taken some time to establish an effective IT development function. It made some progress (including handover from BT and critical improvements to disaster recovery) without identifying sufficient management capability and effective governance requirements. It recognised this, implementing an alternative approach over the last few months – bringing in external support. Early evidence is that these arrangements are generally working effectively, meaning that RoS is now much better placed to meet its immediate challenges.

As it sees through implementation of the system changes required in the short-term, RoS needs to review its longer term management requirements to ensure it has sufficient senior management skills and experience crucial for the longer term implementation of major projects.

Action point 6

Land registration project

The Land Registration etc. (Scotland) Act 2012 (LRA) is the first radical review of land registration since the Land Register was set up in Scotland in 1981. Implementation of this new legislation is fundamental to RoS' business, and presents significant challenges and opportunities – both to deliver on legislative requirements and on organisational aims to re-evaluate and modernise registration processes, expand commercial potential and deliver efficiencies. The designated day for the introduction of new requirements is 8 December 2014.

A detailed project delivery plan is in place for immediate LRA requirements, and this is being closely managed, with key activities remaining on-track. But there remains much to do in a limited amount of time. The timeframe is critical, with little scope for additional requirements or slippage if minimum functionality requirements are to be in place on time. RoS has implemented a 'release' approach to help mitigate the risk and this appears to be working effectively.

Land & buildings transaction tax project

RoS also needs to support the introduction of Land and Buildings Transaction Tax (LBTT) from 1 April 2015. RoS' current understanding is that their role in terms of compliance, investigation and enforcement of the new taxes is likely to be minimal however, RoS recognises the risk here that additional IT work in respect of LBTT may need to be done at the same time as significant IT activity is happening on LRA. If this were to occur a resource conflict in respect of IT skills may arise. This is being managed as a 'high' and 'live' risk by the respective project teams with contingency arrangements being identified in case the risk crystallises.

There have been delays in the appointment of an IT supplier to develop and build the new Scottish tax collection system and RoS recognises that any further delays could have serious impacts for both LRA and the support RoS can provide to Revenue Scotland in respect of LBTT. Planning is underway in case these contingency arrangements need to be put into effect. The release based approach being adopted for LRA provides some capacity and the IT Development team in RoS has been further resourced to support the programme of IT change. Contingency procedures have been developed to support LRA 'go-live' In terms of LBTT the Tax Administration Programme board is progressing contingency arrangements to support the collection of the new taxes from1 April 2015 should this be necessary and RoS is participating in this process.

Arrangements for the prevention and detection of fraud

RoS's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

RoS participated in the National Fraud Initiative (NFI) for the first time in 2012/13. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that RoS has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI. No fraudulent cases or errors were identified as a result of this work, providing assurance about the effectiveness of control.

Audit Scotland's National Fraud Initiative Report was published on 26 June 2014. Fraud and errors worth £16 million were identified as part of this study, the largest and most diverse detection exercise undertaken by Audit Scotland to date, which involved 127 public bodies across Scotland.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in RoS are satisfactory and we are not aware of any specific issues that we need to record in this report. There were no instances of internal fraud or irregularity reported by RoS in 2013/14.

Outlook

2014/15 is a critical year for RoS in terms of having to deliver the key requirements of Land Registration etc. (Scotland) Act 2012 from the designated day of 8 December 2014. In addition to this, RoS has an important role in supporting Revenue Scotland with the development of a new tax collection system and processes for the collection of Land and Buildings Transaction Tax, which will be collected from April 2015.

Effective governance and oversight of these areas and of the ongoing development of in-house IT service provision (alongside appropriate external support) will continue to be a critical area. Continued effort is required to place IT development capability on a firm footing, and to ensure that there is sufficient capacity to deliver on the vision for RoS to be a fully IT-enabled business. RoS also faces significant challenges in ensuring that systems and processes are completed and tested in time to meet agreed timetables for the implementation of new Land Registration requirements.

Best Value, use of resources and performance

Arrangements for securing Best Value

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.

RoS' corporate plan for 2013-16 set out an approach to Best Value including twice yearly reports to the RoS Audit Committee and an annual report to the Executive Management Team and the RoS Board. A Best Value update paper was presented to the Audit Committee in February 2014 which included a self- assessment of the following areas using the Audit Scotland best value toolkits:

- Vision and Leadership
- Effective Partnerships
- Governance and Accountability
- Use of Resources
- Performance Management
- Sustainability
- Equality.

It is evident from this that RoS has processes in place to monitor and assess its performance, its use of resources, and adherence to Best Value.

Performance management

RoS has a well-developed performance management framework in place. Strategic objectives and KPIs are aligned to the Scottish Government's National Outcomes.

We are satisfied that appropriate arrangements for monitoring performance were in place in RoS for 2013/14. Progress and performance information is provided to quarterly RoS Board meetings and the quality of service is measured through the achievement of KPIs and service standard measures. Annual performance is reported in the RoS annual report and accounts in line with the requirements of the FReM.

Overview of performance targets in 2013/14

RoS's Corporate Plan 2013-16 set out the 13 service standards for 2013/14 and their two Ministerial targets.

RoS reported that the following service standards were fully met:

- Process CAJR applications within 3 days

- Process Crofting Register applications within 3 days
- Process Sasines applications within 20 working days
- Register standard First Registrations within 40 working days.

Six of the other service standards were narrowly missed, and one was missed by a wider margin. This improved performance is a significant achievement when taking into consideration the increased volume of intakes experienced during the year, in an environment of decreased resources.

The Corporate Plan 2013-16 set out two Ministerial targets:

- To deliver 3% cash releasing savings in each year
- Achieve a 5 % increase in income from RoS commercial activities.

RoS reported that they exceeded both these targets in 2013/14.

National performance audit reports

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Two reports published in the last year are of interest to RoS as they make recommendations in respect of dealing with reduced workforce capacity, resources, and financial planning.

Scotland's Public Sector Workforce (28 November 2013)

Public bodies have used a range of measures including pay restraint, redeploying staff and changing working patterns to manage staff numbers and costs.

Between March 2009 and March 2013, the Scottish public sector workforce reduced by 26,600 WTE (seven per cent) to 373,400. These changes helped public bodies reduce their staff costs by an estimated £1 billion. However, continuing financial pressures mean current approaches are unlikely to deliver the savings needed in the future.

Central government bodies should:

- develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content. Senior managers and boards or elected members should scrutinise and monitor these plans
- assess the impact of different terms and conditions on the likely costs and uptake of their departure schemes before they put a scheme in place
- collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members
- forecast expected staff numbers, skill needs and costs on a rolling three-year basis, using scenario planning where necessary.

Scotland's Public Finances follow up report (5 June 2014)

This report was aimed at supporting those leading and managing public services in making increasingly difficult choices about how to make best use of the money that is available. Alongside the report, Audit Scotland has published checklists designed to help non-executive directors with their crucial role in budget-setting and financial planning.

Public bodies should:

- implement an approach to budgeting that focuses more on priorities and links planned spending more closely with the outcomes they want to achieve
- develop a longer-term approach to financial planning that takes account of priorities, risks and liabilities and provides assurances on long-term affordability
- support effective scrutiny by ensuring that good-quality information is available and that non-executive directors have the right skills to carry out their scrutiny roles.

RoS has arrangements in place to consider national performance reports issued by Audit Scotland, whereby local performance is assessed against national findings and improvement actions identified. These actions are monitored by the Audit Committee to confirm implementation.

Outlook

RoS will need to continue to review its workforce and financial plans to ensure that it is able to achieve, and exceed its service standards and Ministerial targets going forward.

RoS faces challenging timescales in terms of developing systems and structures to meet the timetable for the implementation of the Land Registration etc (Scotland) Act 2012 and the Land and Buildings Transactions Tax Act 2013 which are due to come into effect in December 2014 and April 2015 respectively.

The Board needs to continue to review RoS's workforce plans to ensure that it there are sufficient resources in place to meet these demands and that it has effective processes in place to monitor and properly scrutinise performance and delivery to ensure continuous improvement a best value.

Appendix I

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	February 2014	February 2014
Interim Management Report	April 2014	April 2014
Report on financial statements to those charged with governance	August 2014	August 2014
Review of Major Projects	August 2014	August 2014
Audit opinion on the 2013/14 financial statements	August 2014	August 2014

Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

<table>
<tr><th>Audit Risk</th><th>Assurance procedure</th></tr>
<tr><td rowspan="3">Financial targets
The recent economic downturn is having an impact on RoS's business which is apparent from the financial results reported by RoS, from 2008/09 to date. 2012/13 was the fifth consecutive year that RoS reported an operating loss, which has resulted in reserves falling from £144 million to £61 million over the same period.
There is a risk that RoS may not achieve its target level of reserves or may significantly exceed its target by 2014.</td><td>We reviewed the Corporate Plan 2013-2016 and reviewed budget monitoring documents, and PFM reports to Audit Committee and Board throughout the year. We noted that the budget was reforecast on two occasions during the year as the housing market improved, and intakes increased. We concluded that budget monitoring and reporting was satisfactory, although we did identify one minor error in December’s budget monitoring workbook.</td></tr>
<tr><td>We tested expenditure and income transactions from throughout the year to determine whether they were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.</td></tr>
<tr><td>RoS returned to profitability in 2013/14, we reviewed the revised reserve policy as part of our final accounts work.</td></tr>
<tr><td>Financial impacts of LR
The financial impacts of LR are complex. The</td><td>We reviewed Board, Audit Committee, Executive Management Team minutes as well as minutes from the LR programme board from throughout the year to inform our work.</td></tr>
</table>

Audit Risk	Assurance procedure
Financial Memorandum to the Bill identified a number of costs to RoS: • those associated with the new triggers for First Registration • the costs to RoS of implementing the legislation • IT costs • the cost structure of RoS after implementation of LR. While RoS considers the majority of costs are reflected in their current operating plan there is a risk that unplanned for liabilities emerge as a result of implementation of LR.	We reviewed the Corporate Plan 2013-2016 and reviewed budget monitoring documents, and PFM reports to Audit Committee and Board throughout the year and concluded that costs and risks were being monitored and assessed on a regular basis. Reviewed internal audit's report on the LR and transition projects to inform our work.
Recurring Losses RoS has reported operating losses for the five years to 31 March 2013 and a significant reduction in reserves (retained profits). The Corporate Plan for 2014/17 indicated that the organisation was planning to deliver further losses for 2013/14 and 2014/15 The Public Finance and Accountability (Scotland) Act 2000 requires that sums received by the Keeper are sufficient, taking one year with another to meet expenditure.	RoS returned to profitability for the year to 31 March 2014. We concluded from the performance of our year end procedures that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that expenditure was valid and correctly classified between revenue and capital.

Audit Risk	Assurance procedure
Designated receipts RoS accumulated significant cash reserves in the years prior to 208/09 and those reserves earned interest when placed on short term deposit. Under section 64(5) and (6) of the Scotland Act 1998 (Designation of Receipts Order 2009), HM Treasury may designate any receipts as payable to the Secretary of State for Scotland - for onward transmission to the UK Consolidated Fund.	RoS reported a surplus for the year to 31 March 2014, and as such its cash reserve, and therefore, short term deposits increased. We performed testing on these balances at year end.
	Reviewed and considered reserves policy and updates during the year. Reviewed and tested year end debtors and payables balances at year end. Held discussions with senior officers.
IT strategy: The IT strategy sets out the framework for delivering the requirements as set out in the LR and LBTT. Due to the legislative timetable there is a risk that the IT directorate may not be capable of delivering the required changes, especially if there are unanticipated delays or issues.	Undertook a follow up audit of our 2012/13 Computer Services Review (CSR) and review of major projects.
	Considered several internal audit reports during 2013/14 which covered various aspects of IT.
IT disaster recovery plan: RoS carried out some development work on its disaster recovery	Undertook a follow up audit of our 2012/13 CSR and review of major projects.
	Considered several internal audit reports during 2013/14 which covered various aspects of IT.

Audit Risk	Assurance procedure
arrangements in 2012/13 but this work is not expected to be complete until the second half of 2013/14. 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.	
Infrastructure improvements: Considerable system development effort is required to deliver the legislative changes contained in the Strategy. The IT directorate does not yet have sufficient capacity to fulfil all the system developments included in the strategy. Accordingly, there is an ongoing campaign to recruit specialised IT staff, experienced in the use of the techniques and tools that will be used to implement these developments. There is a risk that such specialised staff may be difficult to appoint within the timescale required, which may result in delays in the delivery of these changes.	Undertook a follow up audit of our 2012/13 Computer Services Review and review of major projects. Considered several internal audit reports during 2013/14 which covered various aspects of IT.

Audit Risk	Assurance procedure
Change Management RoS has delivered three voluntary exit schemes to 31 March 2013 which have resulted in 306 staff leaving the organisation.	Reviewed performance reports throughout the year, as well as staff costs. We have noted that agency staff costs have risen considerably during the year and that this is a reflection of the reduced workforce capacity, in addition to the increase in workload and impact of the LR and LBTT projects.
The implementation of the LR and the LBTT will place additional demands on the organisation and there is a risk that RoS may not have the capacity to successfully implement the LR and LBTT.	We noted that RoS's performance against targets has improved since 2012/13.

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
1/5	**My CSP information** Pension information for the Remuneration Report was not received until 23 June 2014. **Risk** Late arrival of this information delays to the accounts preparation and audit process. **Recommendation** Registers of Scotland should liaise with the Cabinet Office and My CSP at an early stage to ensure that this information is received as early in the process as possible.	The recommendation is noted although it should be pointed out that MyCSP were contacted in plenty of time and in line with prior year timetables. Furthermore we understand that a number of public bodies both in Scotland and more widely across the UK received delayed data returns from MyCSP. However we will liaise with MyCSP to see if anything can be done to ensure a more timely return of this data in future accounting periods.	Head of Finance	30th Sept 2014

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
2/5	**Segmental Reporting** RoS has improved its reporting of income and cost of sales, but does not separately show trading performance or apply segmental reporting. **Risk** RoS is not transparently reporting its trading performance for each business segment. **Recommendation** RoS should further develop their internal and external financial reporting on a cost of sales basis, and consider the introduction of segmental reporting. To make this process easier RoS will need to review their chart of accounts.	Whilst accepting that we do not currently provide segmental data we would note that we do provide details of loss making products and this approach has been accepted by Audit Scotland as being appropriate in our current circumstances. Having said that initiatives like Land Register Extension and Completion will change the equation here. The RoS Board will consider the extent to which it wishes to embrace segmental reporting in respect of some or all of its activities and will discuss those preferences with Audit Scotland in advance of the next annual audit.	Director of Finance	31st March 2015

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
3/5	**Non-current asset register (NCAR)** During our audit work we found a number of items within the NCAR that could not be fully reconciled to the general ledger. **Risk** That the NCAR and ledger do not fully agree, and that items that have been disposed of remain on the NCAR. **Recommendation** RoS should review the NCAR regularly to ensure it is complete and accurate; that correct charges have been applied; and, that the general ledger fully reconciles to the NCAR.	The recommendation is noted and accepted. This reconciliation will be added to our suite of accounting controls and performed on a regular and recurring basis.	Head of Finance	30th Sept 2014
4/6	**Revenue and Capital expenditure** A number of purchases were incorrectly classified throughout the year. **Risk** Expenditure is incorrectly classified. **Recommendation** Finance should continue to work with IT services to ensure transactions are appropriately categorised.	The recommendation is noted and accepted. Further discussions will take place between the Finance and IT functions to improve approval processes and ensure better coding and classification of these costs.	Head of Finance/ Head of IT Services	30th Sept 2014

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
5/11	**Workforce Capacity** RoS have had to utilise a significant number of agency staff during the year to ensure they had sufficient workforce capacity to achieve service standards, and progress critical projects. Changes ahead are likely to require significant changes to the deployment of resources. **Risk** RoS does not have sufficient workforce capacity in place. **Recommendation** RoS should continue to regularly review its workforce capacity, particularly for critical projects.	The requirement for better and more integrated 'strategic workforce planning' has been noted during the LRA 2012 projects. Work is under way (summer 2014) to identify potential new approaches that allow us to model short, medium and long term workforce requirements and the associated costs. The aim would be create a model which allows the optimal allocation of staff (by skill and grade) to operational task. We will also review PMO processes to ensure that the new model can accommodate the impact of staff abstractions onto strategic projects. In the medium term investments in IT and the automation of the more straightforward transactions should reduce the risk of having insufficient staff. Indeed a more likely risk is having too many staff in some areas.	Director of Finance	31st Dec 2014

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
6/14	**IT Governance / strategy** There have been significant changes to the management structure within IT services and IT development within the past two years. **Risk** The IT Directorate lacks clear operational management direction and may not be consistently represented at the Executive Management Team (EMT) or Board. **Recommendation** **RoS should review its longer term management requirements to ensure it has sufficient senior management skills and experience crucial for the longer term implementation of major projects.**	We are confident that the arrangements that have been put in place in the short term significantly reduce the risk of failing to deliver key projects such as LRA and LBTT. However the general point that in the medium term the IT directorate needs to be structured in a way that allows it to play a significant part in making RoS an organisation that can deliver IT enabled change effectively is accepted.	Keeper/Accountable Officer	31st Dec 2014