Registers of Scotland

Annual audit report 2014/15

August 2015

Contents

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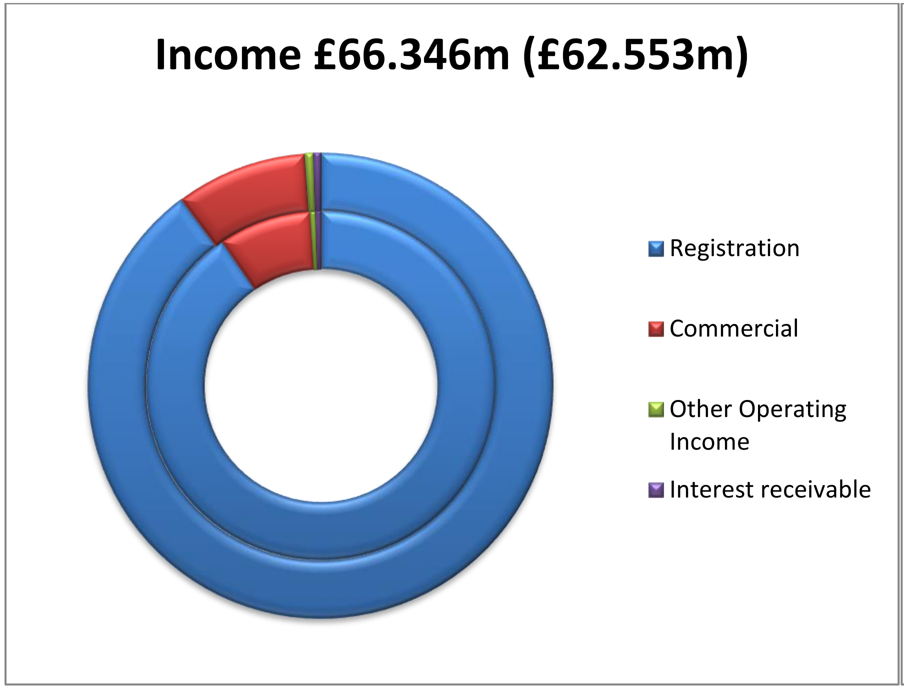
Key Messages

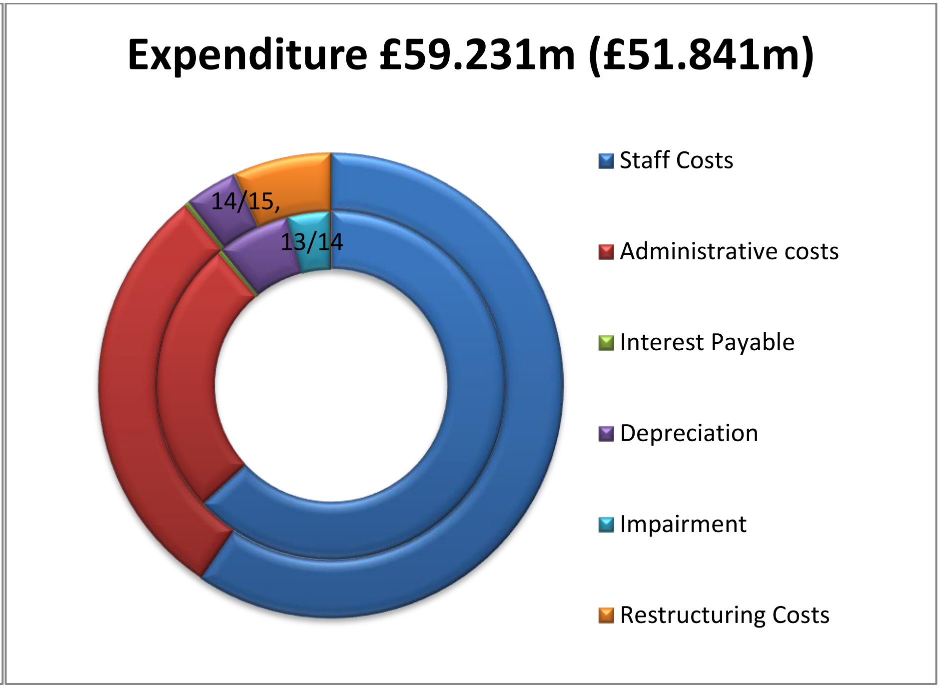
Audit of financial statements	Unqualified independent auditor's report on the 2014/15 financial statements. Net impact of all audit adjustments is to increase the comprehensive surplus by £1.2 million and net assets by £1.2 million.
Financial management and sustainability	RoS had a second successive profitable year, reporting a surplus of £7.5 million. Income was up 6% and operating costs were up 16% when compared with 2013/14. Costs went up due to third party support to help RoS' IT development team realise changes in IT systems for RoS' ongoing investment programme in IT infrastructure for digitalisation of Land Registration.
Governance and transparency	Overall we found that RoS had sound governance arrangements. Systems of internal control operated effectively during 2014/15. The Register of Interests extends to RoS senior management staff and is renewed annually.
Outlook	RoS are embedding new working practices under the Land Registration Act 2012 and Land and Buildings Transaction Tax Act 2013. A key focus for RoS will be implementing and delivering the IT digital strategy. RoS need to continue to develop better budgeting to support these strategic changes and inform workforce planning. The Land Register Completion project will be an important development in the years ahead.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of RoS.
2. The management of RoS is responsible for:
   - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
   - ensuring the regularity of transactions, by putting in place systems of internal control
   - maintaining proper accounting records
   - preparing and publishing with their financial statements an annual governance statement and a remuneration report
   - preparing a Whole of Government Accounts return.
3. Our responsibility, as the external auditor of RoS, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at appendix II.
6. Appendix III is an action plan setting out our recommendations to address the high level risks we have identified from the audit. 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. The committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements





The financial statements show that overall Income is £3.793 million (6%) more than last year, with increases in both registration and commercial income reflecting an increase in the number of property transactions completed in the 2014/15 financial year.

Overall expenditure increased by £7.390 million (14%). Both staff costs (£2.5 million) and administrative costs (£4.3 million) rose, due to the increase in registration activity and IT expenditure required to enable the ongoing implementation of the digitalisation of Land Registration and the Land Registration 2012 Act (LRA). In April 2014, the RoS Board authorised expenditure on a Voluntary Exit scheme as part of a workforce restructuring plan. This has contributed £3.7 million of the increase in restructuring costs of £4.0 million. Last year's impairment charge arose because of a one-off impairment of £2.057 million in 2013/14 due to the revaluation of Meadowbank House.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements	•The financial statements of RoS for 2014/15 give a true and fair view of the state of the body's affairs and of its expenditure for the year. •We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.
Regularity	•In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
Other prescribed matters	•The remuneration report to be audited has been properly prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions. •The information in the management commentary and strategic report is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited single entity financial statements on 24 May 2015 in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 19 June 2015.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Audit Committee on 18 February 2015.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

13. Appendix I sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

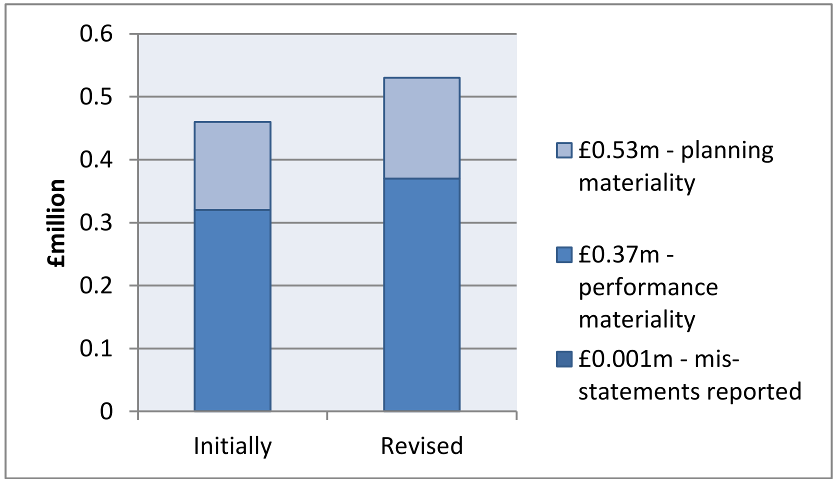
Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £0.53 million (1% of gross expenditure). Performance materiality of £0.37 million is determined to ensure that uncorrected and undetected audit

differences do not exceed our planning materiality level. We report all misstatements greater than £1,000.



Evaluation of misstatements

18. A number of misstatements identified during the audit have not been adjusted in the financial statements. If adjusted this would decrease net expenditure and increase the net assets in the statement of financial position by £109,000. We discussed the value of making these adjustments with relevant officers. Since these errors were minor, we agreed this was within our materiality tolerance for these misstatements not to be adjusted, and the financial statements still present a true and fair view.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:

- The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures.
- Significant difficulties encountered during the audit.
- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

20. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The overall effect of the adjustments made to the financial statements, is to increase the retained surplus by £1.2 million. Net assets as recorded in the statement of financial position have increased by £1.2 million. A summary of the main adjustments are contained in the following table together with significant issues that, in our view, require to be communicated to you in accordance with ISA 260.

Significant findings from the audit in accordance with ISA260

21. **Estimated costs of Voluntary Exit Scheme**: In April 2014, the RoS Board authorised expenditure of £5 million to fund a Voluntary Exit scheme to be run within the 2014 and 2015 calendar years. The scheme was launched in November 2014 and all 54 applications were scrutinised by the staffing committee, and approved on the recommendation of the staffing committee, by the Executive Management Team in December 2014, on the basis of estimated costs of £4.9 million. In accordance with accounting standards, the estimated costs of the scheme were recognised in the Statement of Comprehensive Income within the draft 2014/15 accounts submitted for audit. Following preliminary audit discussions and further management investigation, an error in how the estimated costs had been calculated was discovered.

    Resolution: The revised cost is £4.037 million (£3.7 million plus £0.375 million of costs arising from an undercharge in respect of an earlier scheme), and an adjustment was made to the accounts causing an increase of £1.22 million in the level of retained surplus for 2014/15. We have performed substantive testing on individual packages and are satisfied that the revised estimates are reasonable. Please see Appendix III for further details.

22. **Accounting for Voluntary Exit Scheme:** In the draft financial statements, the estimated costs of exit packages were included in the accruals total within current liabilities. 33 employees had not signed their exit agreement by the year-end and were not due to leave until 31st March 2016.

    Resolution Given the increased uncertainty and the timing of the payment due, it was agreed with management that it would be more appropriate to account for the costs relating to the 33 employees (£2 million) as a long term provision. The adjustment has been made to the revised accounts.

Significant findings from the audit in accordance with ISA260

23. **VAT treatment on capital invoices:** During the course of our substantive testing, we found three 2014/15 invoices where the VAT treatment had been adjusted following review by finance. As the errors were identified after the final quarter VAT return had been submitted, the adjustments had been put through the accounting ledger in 2015/16. Finance confirmed that a number of other similar invoices were affected and agreed that the total overstatement of expenditure in the 2014/15 accounts was £0.099 million.

Resolution Following consideration of materiality and the complexity of the adjustments, management proposed not to adjust for this error, and we agreed with this.

24. **Pre-payment error:** Our substantive testing included one invoice relating to expenditure covering the 3 month period from March 2015. A pre-payment adjustment had been made for 1 of the 4 items in the invoice. After querying this treatment it was identified that all 4 items should have been accounted for as a prepayment. This error has resulted in an overstatement of expenditure by £0.010 million.

Resolution Management proposed not to adjust this error in view of materiality, and we agreed with this.

25. **Provision for Work In Progress:** The draft accounts included a provision for estimated losses relating to incomplete transactions under the 2012 legislation. Cost allocation assumptions for these cases were based on limited data and after further discussions with finance officers, it was concluded that the allocations did not fairly reflect the amount of time spent on 2012 work, and that more time should be apportioned to work under the 1979 Act.

Resolution An adjustment has been made to the 2014/15 accounts, decreasing the provision in Note 9 Inventories and the loss in Note 18 Losses, by £0.140 million.

Significant findings from the audit in accordance with ISA260

26. **Provision for Dilapidations costs for Lomond House, Glasgow:** The lease for Lomond House is due to expire in July 2015 and RoS have taken the decision not to renew the lease. RoS commissioned a report issued by DTZ in May 2015 which has estimated the cost of work to restore the property under the terms of the lease to be £0.127 million. The decision not to renew the lease, taken prior to the year end, constitutes a present obligation and a provision for this amount should be recognised. RoS currently sub-lease the property to Skills Development Scotland, so a proportion of the costs may be recoverable under the terms of their memorandum. However, the degree of certainty is not sufficient to recognise a corresponding asset at this stage.

    Resolution An adjustment has been made to the 2014/15 accounts, increasing both provisions and expenditure by £0.127 million.

27. **Indemnity Provision:** During the course of the audit, new information from the District Valuer became available that the best estimate for an indemnity provision of £1 million in the draft accounts is likely to be closer to £0.9 million.

    Resolution: An adjustment has been made to the accounts, decreasing provisions and decreasing expenditure by £0.1 million.

28. **Utilities Accrual:** Our expenditure testing identified a significant variance in expenditure for gas between 2013/14 and 2014/15. Finance followed this up with Estates and identified that RoS had not been billed properly (£0.034 million) due to a problem with a meter. This could have been identified earlier through closer monthly monitoring of budgets which could have informed any inspections work carried out by Estates.

    Resolution Although not material, an adjustment has been made to the accounts as it also affects RoS' environmental reporting.

29. **Staff Cost Disclosures** Information to support staff numbers in Note 3, Staff Costs, changed when data provided was challenged by audit.

    Resolution: Staff cost disclosures were amended based on revised data, and the numbers around the agency staff category increased by 26 to 65 overall.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

30. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:

- Adoption of IFRS13 Fair value measurement for the first time – this also includes IAS 16 and IAS 38 adaptations.
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.

31. **International Financial Reporting Standards (IFRS) 13 Fair value measurement**: sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

32. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptions to IAS (International Accounting Standard) 16 property, plant and equipment. We will discuss any implications for RoS with management in due course.

33. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- A performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.
- An accountability report incorporating the following three main sections:

- corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
- remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
- parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report

34. RoS will need to consider the implications for its Annual Report next year.

Financial management and sustainability

35. RoS is a non-ministerial department which operates as a trading fund. RoS provide services on a commercial basis and must meet all expenditure and liabilities from commercial income. Scottish Ministers set fees after consultation with the Keeper, and determine the financial targets to be pursued by RoS. RoS makes no claim on the Scottish Consolidated Fund.

2014/15 financial position

36. At 31 March 2015, RoS' statement of financial position shows an increase in total equity to £82 million, which can be attributed mainly to a reserve balance of £72 million and a retained surplus for the year of £7.4 million.

37. RoS exceeded their 5% commercial income target with an 11% increase. The housing market was strong in the last quarter of the year and this fuelled demand for RoS products.

38. The financial position of RoS remains strong due to increased market activity in terms of volume and price of sales. 2013-14 saw RoS return to profitability after experiencing losses in each of the previous five years. As income is closely linked to the property market, and the market itself is cyclical, this inherent uncertainty remains in future years.

39. The Corporate Plan for 2015-18 sets out the planned use for the retained profits. Future budgets take account of the investment required for the digital transformation project and the land register completion project. The Corporate Plan for 2015-2018 was approved by the Board on 25 February 2015.

40. RoS currently plan on a three year rolling basis. RoS are starting to extend their planning horizon to ten years in the context of the Land Register completion project which has a ten year timeline. RoS have started envisioning how the organisation will look in 2024, but as yet, there is no scenario planning to this timescale. RoS are also investing in software to allow forecasting of activity on a robust basis, to allow more accurate budgeting in all areas on a short term basis, but this should also facilitate robust scenario planning on a longer term basis. Since RoS now have a long term project that falls outwith their normal planning cycle of three years, we recommend that long term planning for the organisation is prioritised in the coming years.

-***Refer to Action Plan 1***

41. The 2014/15 budgeted surplus included in the 2014-17 Corporate Plan was £14.7 million. The final comprehensive surplus position of £7.5 million reflects the following in-year

changes:

- Timing of voluntary exit scheme costs accounted for in 14/15.
- Lower than expected income due to a smaller than anticipated increase in land and property transactions.
- Lower than expected income as RoS prioritised logging all 1979 Act cases on RoS systems, prior to designated day. This meant that at the 31 March 2015, more casework was work in progress rather than completed and realised as income.

Financial management

42. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management;
- standing financial instructions and standing orders are comprehensive, current and promoted within the body;
- reports monitoring performance against budgets are accurate and provided regularly to budget holders;
- monitoring reports do not just contain financial data but are linked to information about performance;
- members provide a good level of challenge and question budget holders on significant variances.

43. Based on our accumulated knowledge, our review of board papers and through our attendance at committees we conclude that RoS has satisfactory financial management arrangements in place.

44. The cash-saving efficiency financial target set by Scottish Ministers is to achieve an annual 3% cash-saving. This target was not met in 2014-15. Support and development expenditure associated with the implementation of digitalisation of land registry services and the Land Registration etc. (Scotland) Act 2012 (LRA Act 2012) had led to an increase in comparable costs, which RoS have calculated as 2.7%. The LRA Act 2012 provides the legal basis for e-registration and e-conveyancing. Once fully embedded, this should result in significant efficiency savings; therefore RoS are anticipating that this target will be met in future years.

Budgetary Control

45. Overall, budgetary control is satisfactory, but RoS have recognised the need to improve the quality of estimates in some areas, and have invested in a reporting tool to enhance their budget forecasting which should also support better budget monitoring. To support this improvement, business areas need to use this financial analysis to inform future actions and decisions.

46. Our testing identified a number of instances where the review of budget information could have been improved. Whilst there is unpredictability over revenue, it does not follow that costs cannot be closely monitored and controlled.

47. We noted that the cost of forecast exit packages reported to the Board was £4.9 million and on which business decisions were made. The anticipated cost was £3.7 million and an adjustment was made to the financial statements of £1.22 million. This difference is the result of an incorrect assumption on the cost of exit packages and what the costs to the organisation were. There was not full scrutiny of this information before it was submitted to the Board and on which business decisions were made. This is an example of poor quality information influencing budgeting and business decisions. We recommend that managers in departments check their cost assumptions with senior finance officers when creating business cases for board or EMT decision.

Refer to Action Plan 2

48. Our expenditure testing found that RoS had not been billed for gas during the 2014-15 financial year. Following our audit query, estates have established that there was a problem with the meter. Closer scrutiny of budget monitoring reports would have identified this problem sooner.

49. Our review of Note 3, Staff Costs, and the costs associated with the voluntary exit scheme, identified that 13 employees who selected the earliest date of the 31st March 2015 were paid Compensation in Lieu of Notice (CILON). Due to the internal timescales used by RoS all 13 employees received their quotes within the 3 month period and were entitled to CILON payments with a total value of £76,561. With better planning the majority of these costs could have been avoided.

Refer to Action Plan 4

Workforce planning

50. RoS employ a number of strategies to resource the organisation, however, there is not an overall strategy which brings RoS workforce planning all together and provides a strategic direction for the staffing committee, departments and the Human Resources function to use.

51. RoS presented a Voluntary Exit scheme paper to the Board in April 2014 setting out reasons for the scheme and in reference to the corporate plan. This exit scheme was targeted at staff involved in 1979 Act work, as this workload is coming to an end. While running a targeted exit scheme, RoS have an increasing need for people in some business areas, and they have taken the decision to meet this through temporary staff for IT and Registration. Currently agency staff represent 7% of the workforce (65 of 975).

52. The procedural changes brought in by the LRA Act 2012 and the forthcoming digital transformation projects, should reduce the resource requirements of the registration teams over time.

In the meantime, until these changes take affect and resourcing needs are known, a number of temporary staff have been recruited, the majority through agencies.

53. Not all of these recruitment decisions flow through the staffing committee, as the staffing committee meets on a monthly basis, and some decisions needed to be taken more quickly.

54. There is not an organisation wide workforce plan in place to provide a reference for the staffing committee to make short term tactical decisions against. We recommend RoS continue to develop its workforce planning model to allow the optimal allocation of staff (by skill and grade mix) to operational task; and thereby provide a basis for longer term strategic planning.

-Refer to Action Plan 3

Outlook

55. RoS' medium term financial strategy is set out in their reserves policy. This is revised and agreed by management every six months. The policy earmarks reserves to cover fluctuations in the housing market, potential future indemnity claims and the costs associated with the major projects outlined below. Registrations fees are then reviewed and set on a periodic basis in consultation with Scottish Ministers to ensure surpluses are sufficient to meet investment needs and support any losses in the event of a cyclical downturn in the property market. .

56. **Digital Transformation:** The Digital Strategy was approved by the board in February 2015. It highlights that RoS' systems are built on complex bespoke code and that these systems are nearing the end of their useful lives. The Digital Strategy aims to transform RoS from a largely paper-based registration and information provision business to a digital-based business supported by robust and flexible systems. RoS have started to recruit key vacancies in IT development to enable all the system developments to be achieved.

57. **The Land Registration etc. (Scotland) Act 2012 (LRA 2012)** provides the legal basis for e-registration and e-conveyancing. RoS successfully met the project delivery plan to implement requirements under the LRA 2012 Act. However, RoS did bring in external IT providers, in the last 6 months of the project to ensure this target was met. This is the start of the digital transformation journey for RoS. New online submission channels have been introduced, such as new e-forms, the advance notice system and new reports portal.

58. **Land register completion project:** The Scottish Government announced a commitment in May 2014 that all public land must be on the land register by 2019 and all land on a completed register by 2024. The RoS Board approved a major project to deliver this commitment and the project commenced in early 2015.

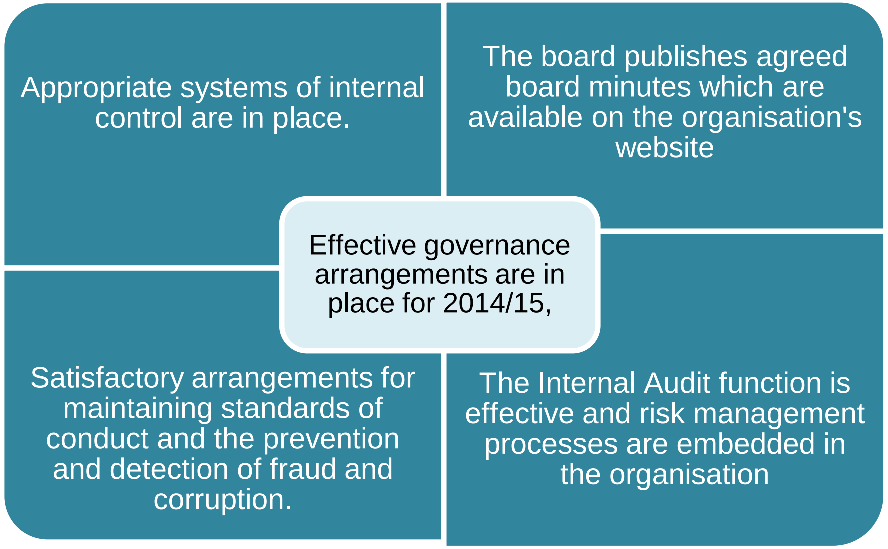
59. **Land reform:** The Scottish Government introduced the Land Reform (Scotland) Bill to the Scottish Parliament in June 2015. The Bill increases the powers and responsibilities of the Keeper, including the power to request additional information

about landowners for inclusion in the Land Register and a requirement to create a new Register of Land for Sustainable Development.

60. **Land Property Information System** In a speech in March 2015, the Deputy First Minister suggested that a land and property information hub could be a valuable national asset. At the Deputy First Minister's invitation, a taskforce headed by the Keeper and including a number of other public bodies and key stakeholders, has been established and will report at the end of July 2015.

61. RoS will have a challenge over the next few years in managing stakeholder expectations, promoting voluntary registration and resourcing these projects.

Governance and transparency



Corporate governance

62. RoS through its Accountable Officer is responsible for establishing arrangements for ensuring the proper conduct of the affairs of RoS and for monitoring the adequacy of these arrangements.

63. The RoS Board acts in an advisory capacity to the Chief Executive (Keeper) and the Accountable Officer in their respective roles. The board is supported by the Executive Management Team (EMT) and Audit Committee. As at 31st March 2015, the Board consists of six executive and four non-executive directors.

64. The Deputy Keeper (who was also the accountable officer) departed the organisation on voluntary exit terms in August 2014 presenting an opportunity for RoS to further restructure the senior management team. The Deputy Keeper post was not replaced with the majority of their responsibilities including that of Accountable Officer transferred to a new post of Operations Director. Responsibility for legal services transferred to the Corporate Services Director.

65. The Chief Technology Officer (CTO) post vacated in February 2014 will not be replaced on a permanent basis, with board level IT responsibilities held by the Operations Director. A new post of Digital Director, created in September 2014 does not include Board membership. This post along with other senior IT roles have been filled on either 18 or 24 month contracts using the Scottish Government Interim Management framework. The main focus for the Digital Director has been to develop the Digital Strategy and oversee the Digital Transformation Project.

66. Temporary staff contracts are due to expire before the completion of the project in 2017 and RoS will need to ensure that adequate succession arrangements are in place. This risk has been recognised in the Board’s risk register and there is awareness amongst the IT staff that they have a responsibility to facilitate succession planning as part of their objectives.

67. RoS have made an investment in their project management capacity and have set up appropriate governance arrangements for their major projects.

68. RoS have set up a Digital Transformation Programme Board (DTPB) to manage the change process in a coherent way. All projects will produce a business case and each project is planned and managed by a Senior Responsible Owner (SRO). The DTPB provides support to the SROs. RoS are also taking part in Gateway Reviews[1] as part of their project management. RoS have also set up a prioritisation forum and a design authority to ensure that digital and other change activities are considered consistently and prioritised, so that resources are directed accordingly.

69. We concluded that RoS has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

70. During the course of the audit, the management commentary and strategic report was further developed to give more information on outturn against budget as set out in the corporate plan 2014-17, and a commentary on the reasons behind the increase in IT expenditure in 2014/15 compared to the previous year. These revisions support the transparency of RoS' annual report.

71. The Scottish Government's On Board guidance (http://www.gov.scot/Publications/2015/04/9736/0), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- Holding an annual open meeting
- Holding board meetings in public unless there is a good reason not to
- Publishing summary reports and/or minutes of meetings
- Inviting evidence from members of the public in relation to matters of public concern
- Consulting stakeholders and users on a wide range of issues
- Making corporate plans and the annual report widely available.

72. Within RoS all board and committee meetings are held in private. Board minutes are available on the RoS website, but minutes from 2015 meetings are not yet available on the website.

73. RoS also carry out consultations on major policy developments, the most recent of which reported in February

[1] These are reviews undertaken the Scottish Governments Project and Programme Management Centre of Excellence

2015 on the Land Register completion project.

74. Overall we concluded that RoS is open and transparent as far as commercial considerations allow. The Board and audit committee are held in private because of the commercial nature of their business. RoS should keep their openness and transparency in decision making under review.

Internal control

75. As part of our audit we reviewed the high level controls in a number of RoS systems fundamental to the preparation of the financial statements. Our objective was to obtain sufficient audit evidence to support our opinion on the financial statements.

76. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

77. We reported our findings to the Audit Committee on 29 April 2015.

Internal audit

78. Internal audit provides the audit committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. 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. To avoid duplication, we place reliance on internal audit work where possible.

79. Our review of internal audit concluded that the internal audit service provided by PricewaterhouseCoopers (PwC) operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

80. The internal audit plan for 2014/15 was materially complete. We were able to place formal reliance on aspects of internal audit work covering Key Financial Controls.

Arrangements for the prevention and detection of fraud

81. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing fraud response policies and arrangements to respond to registration fraud.

82. RoS have a dedicated fraud team who assist the police in searching the registers, responding to concerns raised by title holders regarding potential fraud, and assisting the litigation team in ongoing fraud enquiries that have led to court action. Recently the fraud team offered fraud awareness training to Registration staff.

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

National Fraud Initiative in Scotland

84. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

85. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

86. Overall, we concluded that RoS has satisfactory arrangements in place for investigating and reporting data matches identified by NFI.

87. As part of this year's NFI exercise, RoS submitted payroll and creditors data and the matching process identified 205 records for investigation, with 61 'recommended' for investigation. To date, 37 'recommended' matches have been investigated with no issues having been identified from those investigations.

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

88. RoS has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members. Also, there are established procedures for preventing and detecting corruption including annual reviews of Standing Financial Instructions and Standing Orders.

89. Senior management at RoS, in addition to board members, annually complete Register of Interests forms which highlight where there may be a potential conflict of interest. Details for non executive board members are contained within the financial statements.

90. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption, and we are not aware of any specific issues that we need to record in this report.

Best Value

91. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

92. 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 RoS agree to undertake local work in this area.

93. We did not undertake any specific work in this area during 2014/15. RoS reviews whether it is meeting Best Value (BV) obligations on a six monthly basis in a paper presented to, and reviewed by, the Audit Committee, the most recent of which was presented to the February 2015 Audit Committee. This review looks at past and future changes that ensure RoS meet their BV obligations.

National performance audit reports

94. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in appendix II.

95. RoS has processes in place to ensure that all relevant national performance reports are considered by the Audit Committee.

96. **Scotland's public finances - a follow-up audit: Progress in meeting the challenges.** This report was published in June 2014 and commented that, in setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes.

97. **Preparations for the implementation of the Scotland Act 2012:** This report published in December 2014 included an assessment of preparations for the implementation of the devolved taxes including Land and Buildings Transaction Tax (LBTT). The report highlighted the increased risk of non-delivery as a result of delays in IT system procurement and recruitment at Revenue Scotland. The relevant legislation identifies RoS as an 'agent' of Revenue Scotland for the purposes of LBTT collection. The introduction of the business processes and IT tools needed to allow RoS to fulfil this agent role has been a important project for RoS this year.

98. **Update on developing financial reporting:** This update report published in March 2015 reviewed the principles of

public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting.

99. The report concludes that the Scottish Government and the public sector generally, have a good record of financial management and reporting. The Scottish Government has continued to improve and develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.

Appendix I – Significant audit risks

The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk identified at planning stage	Assurance procedure	Results and conclusions
Financial audit issues		
Financial impacts of major projects The corporate change programme including plans to implement new registration approaches and complete the land register is presenting significant financial challenges for RoS. The forecast profit for 2014/15 is significantly less than originally planned. This is a result of RoS having a significant backlog of registrations since the designated day in December 2014 and approving an early exit scheme. This is expected to affect the revenue figure in the financial statements for 2014/15 and RoS will need to consider the implications for it's reserve strategy. Over the medium to longer term RoS expects that it will have to use Keeper Induced powers and provide incentives for voluntary registration if it is to meet the 10 year target for completion of the Scottish Land register. The consequence of using these powers and providing such incentives would affect potential future revenues.	We reviewed the financial outturn against budget throughout the year. We are also monitoring RoS' progress in developing financial plans for the medium to longer term and their financial sustainability.	The financial outturn has not affected the longer term reserves strategy as the reserve strategy included a voluntary exit scheme and this has been brought forward from future years into 2014/15. The potential financial impact of using Keeper induced powers and of providing incentives for voluntary registration to allow completion of the Scottish Land register within ten years, remains a risk for future years.

<table>
<tr><th>Audit Risk identified at planning stage</th><th>Assurance procedure</th><th>Results and conclusions</th></tr>
<tr><td>There is a risk:
that the revenue impacts will result in a significant effect on the WIP figure in the financial statements for 2014/15
to longer term financial sustainability if RoS continues to experience high demand for products with insufficient staff capacity.
Continuous financial monitoring is required to support future financial planning and development of budgeting, accounting and financial management arrangements.</td><td></td><td></td></tr>
<tr><td>Income
RoS receive a significant amount of income from Registrations and Commercial activities.
The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</td><td>Detailed testing of revenue transactions focusing on the areas we considered to be of greatest risk.</td><td>We completed testing on a sample of income transactions throughout the year. We did not find any evidence of fraud or income which had been incorrectly accounted for.</td></tr>
</table>

<table>
<tr><th>Audit Risk identified at planning stage</th><th>Assurance procedure</th><th>Results and conclusions</th></tr>
<tr><td>Income recognition and timing
Expenditure relating to partially completed cases are capitalised as Work In Progress (WIP). The allocation of cost is based on the stage of completion and average fees. Complex cases are assessed separately.
The implementation of LRA mid year, will require a separate cost allocation for partially completed cases, 1979 Act arrears will still remain until target clearance date of December 2015.
WIP calculations are based on complicated linked spreadsheets which require careful audit testing. The new cost allocations will require changes to these which will increase the risk.</td><td>We performed substantive audit procedures on the new spreadsheet, and confirmed how the LRA cost allocations were calculated to enable us to make a judgement on reasonableness.</td><td>The WIP calculations including the assumptions behind the cost allocations were audited as part of our work on the financial statements. We challenged the level of costs allocated to 2012 work on the basis that there was limited data available for a three month period to support the assumptions made. An adjustment was made to the WIP provision.
Going forward, cost allocations will continue to require careful monitoring and as more data becomes available we can expect the cost allocations to be more robust. Expected efficiency savings once 2012 processes are embedded are likely to have a significant impact on WIP calculations.</td></tr>
<tr><td>Management override of controls
Auditing standards (ISA 240 The auditor's responsibility to consider fraud in an audit of financial statements) require auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</td><td>Detailed testing of journal entries.
Review of accounting estimates.
Evaluation of significant transactions that are outside the normal course of business.</td><td>We tested a sample of routine and unusual journals. No issues were identified.
In discussion with the Head of Finance, our review of accounting estimates led to a change in the financial statements for the Work in progress provision (see paragraph 25 for details) and the indemnity provision (see paragraph 27 for details). We are satisfied at the reasonableness of accounting estimates used in the financial statements.</td></tr>
</table>

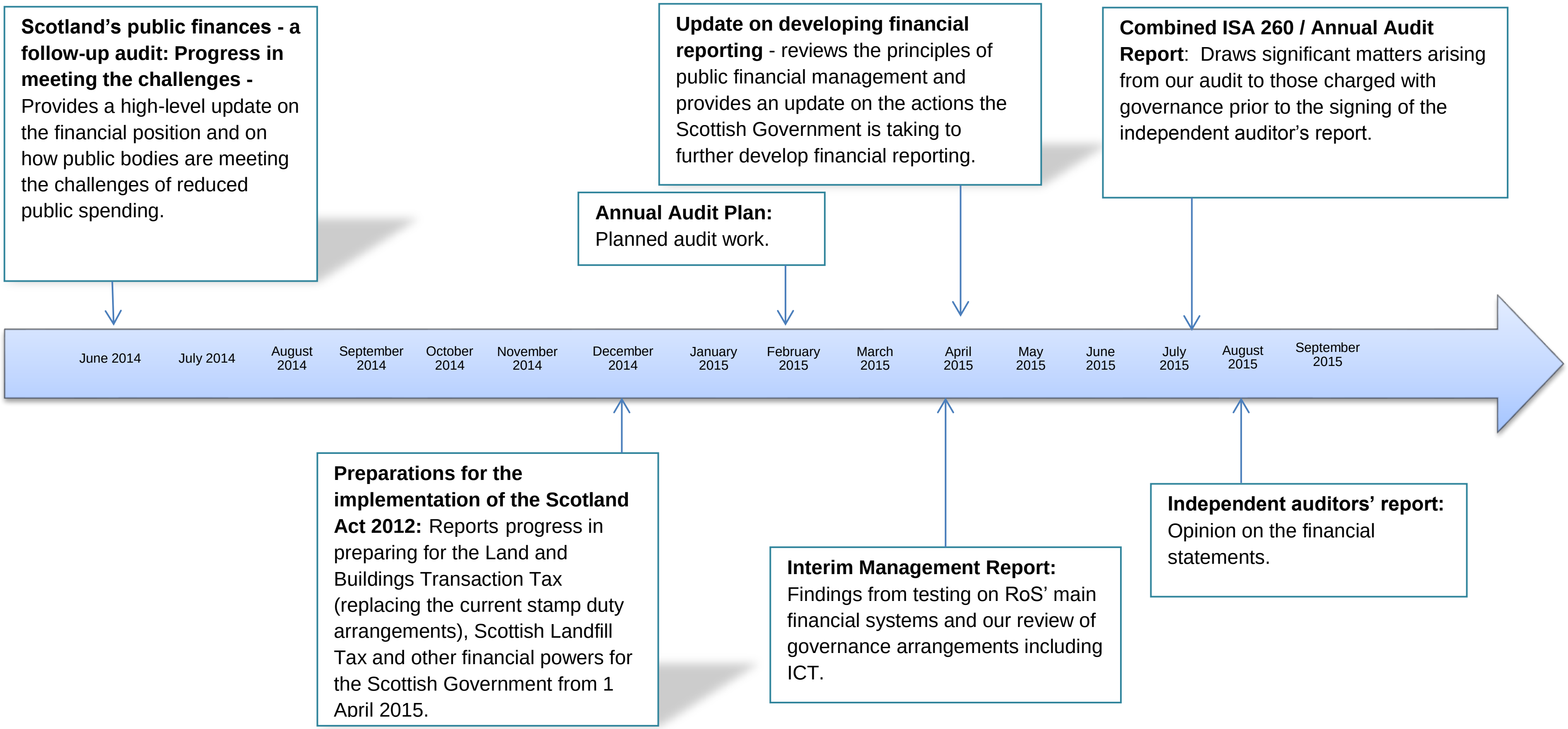
Audit Risk identified at planning stage	Assurance procedure	Results and conclusions
Segmental reporting RoS has improved its reporting of income and cost of sales in 2013/14, but does not separately show trading performance or apply segmental reporting. RoS will need to keep reporting under review as its business continues to develop.	As the nature of RoS' business develops we will keep the format of the Statement Of Comprehensive Income under review based on the development of commercial activities.	RoS are required to adopt IFRS 8 in full in line with the FReM. RoS have fairly distinct commercial and statutory operating directorates. Once the commercial income stream is over 10% of turnover, there is a requirement to report the income and related expenditure separately in the accounts. In 2014/15, RoS did not meet the requirement to adopt IFRS 8 (i.e. above the 10% threshold). RoS plan to implement segmental reporting into their management accounting monitoring for 2015/16 which may facilitate transparent reporting of its trading performance for each business segment in the 2015/16 financial statements. The implementation of segmental reporting should aid budgetary control and management decisions in future. We recommend that RoS keep IFRS 8 in view and prepare for the possibility of segmental reporting if income streams go over the 10% threshold in future years.

Audit Risk identified at planning stage	Assurance procedure	Results and conclusions
Non-current assets classification and valuation Prior year audit work found differences between the Non-Current Asset Register (NCAR) and the financial ledger for accumulated depreciation and historic costs for IT assets and also errors in IT revenue/capital classification. RoS has decided to implement a new NCAR by the end of March 2015 but there is a risk that errors will occur during the transfer of data to the new system and this will result in a material error in the financial statements. RoS has also put additional procedures in place to reduce the risk of misclassification of capital expenditure but the risk cannot be completely mitigated.	We performed substantive audit procedures on the 2014/15 Asset values and depreciation calculations. We also reviewed procedures adopted by RoS for ensuring classifications are correct and made a judgement on level of substantive testing required.	The implementation of a new Non-current asset register (NCAR) has been delayed to later in 2015. RoS have done some work to clear out old assets no longer in use from the NCAR. Finance has been actively communicating with IT to establish the nature of IT invoices and development work to ensure the right classification between capital and revenue is applied. We found fewer errors in classification from this year's testing compared to 2013/14. We recognise the improvements in non-current asset accounting and we expect this to continue in 2015/16.

Audit Risk identified at planning stage	Assurance procedure	Results and conclusions
Workforce Planning RoS delivered three voluntary exit schemes between 1 April 2010 and 31 March 2013. This resulted in 306 staff leaving the organisation. A further voluntary exit scheme which closed for applications in December 2014 identified around 50 further departures. Whilst recognising that workforce reduction will deliver recurring savings, implementation of the major projects will place additional demands on the organisation. RoS is already experiencing capacity issues since the designated day for the introduction of new requirements included in LRA. This has resulted in significant challenges for RoS in responding to the demand. RoS will need to address it's immediate capacity issue to clear the backlog of registrations and also continue to review its workforce plans to ensure that it is able to achieve its aims, service standards and Ministerial targets going forward.	We reviewed the progress of RoS' change programme and implications for staffing against RoS' workforce plans. We monitored business performance against the business plan and ministerial targets through a review of Audit Committee papers.	RoS do not have a workforce plan which is updated on an annual basis, and provides a strategic reference for the staffing committee to make decisions against. (Please see action plan point 3). However, RoS recently acquired a reporting tool which will facilitate transparent reporting and inform future staffing levels on a short term basis. The voluntary exit scheme offered in 2014/15 was targeted to rebalance the skillset of the workforce in response to changes in LRA 2012. The procedural changes brought in by the LRA Act 2012 and the forthcoming digital transformation projects, should reduce the resource requirements of the registration teams over time. RoS' have chosen to meet current resource needs through temporary staff for IT and registration. RoS also have succession planning expectations for key roles which are being filled under short-medium term contractual arrangements. This risk of succession planning is being managed through the key risk register. The utilisation of a new workforce planning model should aid management decisions in achieving key objectives.

Audit Risk identified at planning stage	Assurance procedure	Results and conclusions
IT Governance / strategy The Digital Director is currently finalising the Digital Strategy for RoS which will support the delivery of major projects and longer term organisational aims to re-evaluate and modernise registration processes, expand commercial potential, and deliver efficiencies and Government aspirations. A number of projects have been ongoing to support the delivery of the Digital Strategy. Considerable system development effort is required to deliver the legislative changes contained in the Digital Strategy and the IT directorate does not yet have sufficient capacity to fulfil all the system developments included in the strategy. In the meantime there is a risk of delays in the delivery of these changes.	We reviewed arrangements for completion and implementation of the Digital Strategy including implications for major projects during 2014/15. We reviewed the work of internal audit on the implementation of LR act and transition project – phase 2. We reviewed Digital Transformation Project Board minutes and business cases (in draft as of June 2015).	The Digital Strategy was approved by the Board in February 2015. A business case for the Digital Transformation Programme has been developed and a programme board (DTPB) has been set up. Each project will submit a business case to the programme board. As of June 2015, a number of business cases are in development, with two business cases approved: re-platforming the Solaris operating system and the data centre re-location to Saughton House. There are still a number of vacancies in IT development, but this is being actively managed by the programme board. RoS appointed a new digital supplier in July 2015 to help deliver the digital transformation programme. IT Governance remains a risk for future years as there are a number of challengeing projects RoS will need to manage concurrently.

Appendix II – Summary of local and national audit reports 2014/15



Appendix III – Action plan

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
40	**1. Longer term financial planning** RoS currently plan on a three year rolling basis. The timescales for a major project falls outwith this planning timeline. **Risk** Without a long term plan, the risk is that resources are not in place at the right time, with the right skill mix, to meet organisational challenges. **Recommendation** We recommend RoS continue to develop longer term planning in the coming years to facilitate successful delivery of key projects within budget.	Given the inherent unpredictability of the housing market and its susceptibility to factors outside our control (the economy, interest rates, tax changes etc) our view is that for business planning purposes a three year planning horizon is correct. However we do recognise that Land Register Completion is a new factor with a number of complex variables coming into play and that the size of this project and the magnitude of the change it will deliver requires a longer term planning horizon. For that reason we have built a detailed model specifically for that activity with a ten year planning horizon.	John Fanning – Director of Finance	For next planning round (Nov 2015 to March 2016)

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
47	**2. Estimated costs of Voluntary Exit Scheme** There was a £1.22 million error in the estimation of the total costs of the Voluntary Exit (VE) scheme. The error was included in the draft financial accounts, financial monitoring reports provided to the Board and used in information supporting the authorisation of the departures by the Executive Management Team. There was no scrutiny of this information before it was submitted to the Board and on which business decisions were made. **Risk** Key organisational decisions are being taken based on management information containing material errors which could compromise the decision taken. **Recommendation** We recommend that managers in departments check their cost assumptions with senior finance officers when creating business cases for board or EMT decision.	We recognise that the inclusion of this erroneous information in our draft accounts was unfortunate. We will revise the processes for the the review of future calculations for VE schemes (and indeed other financial data used for decision making purposes) as appropriate. In this instance, the error overestimated rather than underestimated the costs for decision making purposes; and no individual received any excess payment.	John Fanning – Director of Finance Billy Harkness – Director of Corporate Services Head of HR/ Head of Finance	ASAP/ for next VE scheme as or if applicable

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
54	**3. Workforce Planning** RoS employ a number of strategies to resource the organisation, however, there is not an overall strategy which brings RoS workforce planning all together and provides a strategic direction for departments and the Human Resources function to work to. **Risk** RoS does not have sufficient workforce capacity in place. **Recommendation** RoS should continue to develop its workforce planning model to allow the optimal allocation of staff (by skill and grade mix) to operational task.	RoS formed a Staffing Committee some years ago. This group - which is a sub-committee of EMT - has several responsibilities including approving short term changes in the workforce (eg hiring decisions), advising on the HR and OD aspects of proposed restructuring of individual teams and directorates, and looking at the longer term size and structure of the workforce. This latter issue in particular has received detailed attention at that the Staffing Committee in recent months and this will continue to be a main focus of its work. Having said that improvements can always be made and we will include the suggestions being made here into the role and scope of the Staffing Committee. The introduction of a new workforce planning tool in the summer of 2015 (see para 41 above) will be helpful and will allow the broader objective of an improved strategy in relation to workforce planning to be taken forward.	John Fanning – Director of Finance Billy Harkness – Director of Corporate Services	September 2015

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Wider audit issues				
49	**4. CILON payments associated with the Voluntary Exit Scheme.** Although the Board approved the Voluntary Exit Scheme in April 2014, the Executive Management Team triggered the scheme in November 2014. The timing of this decision was based on valid reasons as clearer staffing requirements were known. The design of the scheme did not build in sufficient contingency to allow for delays outwith RoS' control and as a result a number of CILON payments were offered to staff. **Risk** The risk to the organisation is that unnecessary costs could have been avoided with a timetable designed in full view of scheme requirements and contingencies. **Recommendation** We recommend that RoS consider timing carefully in future before opening up and implementing exit schemes for staff.	It should be stressed that – unless there are particular commercial considerations that require it - it has not in the past been our normal practice for CILON payments to be made to staff departing under voluntary exit terms. Nor is this expected to be standard practice in the future. However it is accepted that on this occasion the timetable was too optimistic and that this has resulted in payments being incurred that might otherwise have been avoided. We will factor a longer turnaround time for these external documents for any future voluntary exit schemes.	Billy Harkness – Director of Corporate Services	Future schemes as applicable