

# Registers of Scotland

Interim Audit Report 2016/17



 AUDIT SCOTLAND

Prepared for Registers of Scotland

April 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Audit findings

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## Introduction

**1.** This report contains a summary of the key issues identified during the interim audit work carried out at Registers of Scotland. This work included:

- gaining an understanding of the main financial systems and their controls
- testing of key controls within the income system
- substantive testing of payroll, income and expenditure items.

**2.** Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

**3.** We also reviewed the effectiveness of the internal audit function, provided by PwC, to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

**4.** We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.

## Conclusion

**5.** We identified some control weaknesses as summarised in [Exhibit 1](#). We have developed further audit procedures to gain assurance, where appropriate, in response to these findings as outlined in [Exhibit 1](#). This will enable us to take planned assurance for our audit of the 2016/17 financial statements.

**6.** We have not identified any issues arising from our substantive testing of payroll, income and expenditure transactions.

**7.** Our review of the internal audit function confirmed that it operates in accordance with PSIAS.

## Work summary

**8.** Our 2016/17 testing covered the general ledger, income, expenditure, payroll, cash and bank and capital accounting systems. This included testing the key controls to confirm their existence and operation. The following areas were tested:

- bank reconciliations
- payroll validation and exception reporting

- authorisation of journals
- change of supplier bank details
- IT access controls
- feeder system reconciliations.

**9.** Our review also covered budget monitoring and control and controls for preventing and detecting fraud.

**10.** We performed more focused controls testing of income transactions, due to their complexity, and examined system feeders and reconciliations in more detail.

**11.** Our substantive testing involved agreeing samples of payroll, income and expenditure items to supporting documentation and ensuring these were valid and regular.

**12.** The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

## **Risks identified**

**13.** The key control risks identified during the interim audit and the additional work we will carry out in response to these is detailed in [Exhibit 1](#).

**14.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Registers of Scotland.

## Exhibit 1

### Key findings and action plan 2016/17

Issue identified	Management response Responsible officer and target date	Additional audit procedures
<b>Audit findings</b>		
<p><b>Income reconciliations</b></p> <p>There is no procedure in place to reconcile the following registration income systems to the financial ledger:</p> <ul style="list-style-type: none"> <li>• Registers Direct</li> <li>• Property reports income</li> <li>• CAJR income</li> </ul> <p>This means there are no checks to ensure the value and number of records between these feeder systems and the financial ledger are consistent.</p> <p>The land registration system is reconciled to the ledger on a quarterly basis by the Head of Finance. However, this process only reconciles the number of records not the total value of payments.</p> <p><b>There is a risk that the figures recorded in the financial ledger are inaccurate or incomplete.</b></p>	<p>The CAJR team generate the invoices from the finance system and match them up with the deeds to return to the customers, and there are no problems of missing invoices.</p> <p>The reports system generates invoices which are issued to customers and also sends the data to the finance system. If the data was not transferring then we would have customers making payments for invoices which did not exist on the financial ledger. This has only happened very occasionally and issues investigated and resolved.</p> <p>The Registers Direct system sends data files twice a month to the finance system to generate the sales detail. If there are any issues with this data then these are investigated and dealt with.</p> <p>I think the risk of inaccuracy/incompleteness is very low and of a very low value.</p>	<p>We will review the accuracy of a sample of journal entries from registration income systems as part of our year end audit.</p>
<p><b>Fixed asset register reconciliations</b></p> <p>The monthly reconciliation between the fixed asset register and the financial ledger has not been completed for the last three months. We found no evidence that the last reconciliation, completed for November 2016, was reviewed by a second officer.</p> <p><b>There is a risk that the figures recorded in the fixed asset register and the financial ledger are inaccurate or incomplete.</b></p>	<p>We are in the process of completing these reconciliations and they will all be reviewed and authorised for the accounts.</p> <p>This will then be carried out as a monthly process going forward.</p> <p>Responsible officer: Head of finance</p> <p>Target date: May 2017</p>	<p>We will review the accuracy of the fixed asset register and its consistency with the financial ledger as part of our year end audit.</p>
<p><b>Fixed assets register access rights</b></p> <p>There is only one administrator of access rights for the fixed asset register. This means that changes to access rights cannot be processed in their absence.</p> <p>We also established that at least two members of staff have the same 'superuser' access login details for accessing the fixed asset register.</p>	<p>We are able to contact the supplier re access rights, however we will set up another superuser.</p> <p>The handover in the expenditure team leader role led to two people sharing the one superuser login that was set up. This is not the case now.</p> <p>Responsible officer: Head of finance</p>	<p>We will substantively test a sample of changes to the fixed asset register as part of our year end audit.</p>

Issue identified	Management response Responsible officer and target date	Additional audit procedures
<p><b>There is a risk that a lack of appropriate arrangements over access rights results in errors or fraudulent activity.</b></p>	<p>Target date: May 2017</p>	
<p><b>Bank reconciliations</b></p> <p>The May 2016 bank reconciliation was not completed or reviewed until September 2016. Preparation and review of bank reconciliations helps officers to identify errors in the body's accounting records or those of the bank. Bank reconciliations are a key control in preventing irregularities in cash and income management and helping identify potential fraud.</p> <p><b>There is a risk that potential frauds or errors are not timeously identified and investigated.</b></p>	<p>The monthly bank reconciliation has been completed within the month since October 2016. There were some process issues which meant a handful of entries were not being reconciled. These issues have been fixed.</p> <p>Throughout this the daily bank reconciliations were being completed to timescales.</p> <p>Responsible officer: Head of finance</p> <p>Target date: April 2017</p>	<p>We will agree accounting records to bank statements as part of our year end audit.</p>

Source: Audit Scotland

**15.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

# Registers of Scotland

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