

Registers of Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

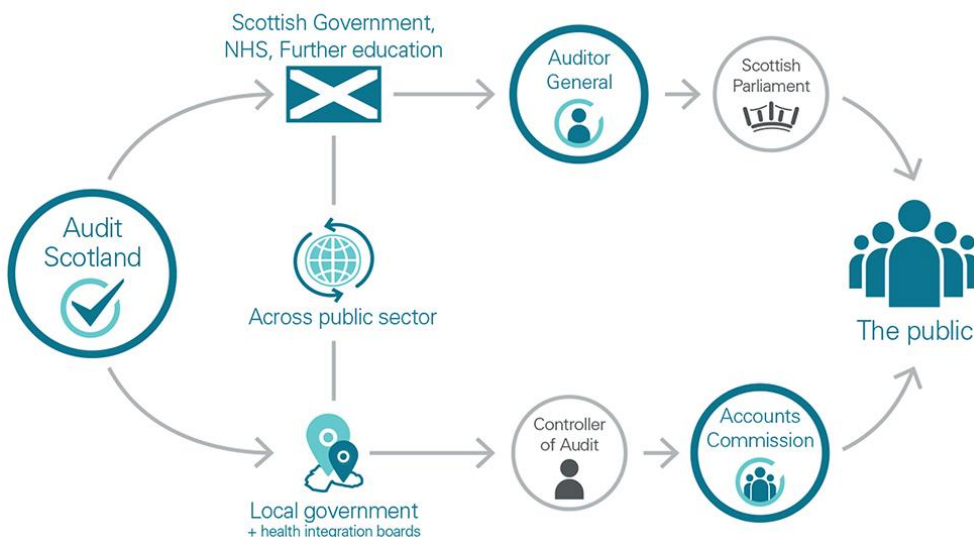
Prepared for Registers of Scotland and the Auditor General for Scotland

August 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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Key messages

Audit of the 2016/17 financial statements

- 1 The financial statements of Registers of Scotland (RoS) give a true and fair view of the financial position and its expenditure and income.
- 2 The expenditure and income in the financial statements was incurred or applied in accordance with applicable enactments and guidance.
- 3 The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 4 RoS effectively managed its finances in 2016/17.
- 5 Systems of internal control operated effectively in 2016/17.
- 6 RoS has satisfactory budget monitoring and control arrangements in place.

Financial sustainability

- 7 RoS has established a sound basis for financial sustainability.
- 8 RoS should continue to develop longer term financial plans.

Governance and transparency

- 9 RoS has effective governance arrangements in place; it may wish to consider whether there are opportunities to further enhance transparency.
- 10 RoS' risk management processes are operating effectively and are fully embedded within its overall governance arrangements.

Value for money

- 11 RoS should continue to develop workforce planning to reflect its business transformation programme and objective to become a fully digital business by 2020.
- 12 RoS should continue to manage the resource implications of meeting the 2024 target for land register completion.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of Registers of Scotland (RoS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:

- an interim audit of RoS' main financial systems and governance arrangements resulting in an interim audit report presented to the Audit Committee in April 2017
- an audit of RoS' 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. RoS is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable RoS to successfully deliver its objectives.

- 5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and, guided by the auditing profession's ethical guidance.
- 6.** These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within RoS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
- 8.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 20\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 9.** Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and remains unchanged.
- 11.** This report is addressed to RoS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of RoS give a true and fair view of the state of the financial position and its expenditure and income.

The expenditure and income in the financial statements was incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and accounts is consistent with the financial statements and prepared in accordance with legal requirements.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Board on 29 August 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.

14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 26 May 2017, in line with our agreed audit timetable.

16. The working papers provided with the unaudited annual report and accounts were of a good standard and finance staff provided excellent support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

17. [Appendix 2 \(page 23\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the annual report and accounts we reviewed our original materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross income for the year ended 31 March 2017.	£0.737 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of overall materiality.	£0.516 million
Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of overall materiality.	£30,000

Source: Audit Scotland

Evaluation of misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

Significant findings from the audit

22. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. There were no significant findings arising from the audit.

Other findings

23. RoS has disclosed the remuneration and pension interests of its Board members in the remuneration and staff report. The remuneration and pension interests of executive directors who are not members of the Board have not been disclosed. This includes the Registration and Transformation Director and the Digital Director. Under the Government financial reporting manual (the FReM) the interests of directors with authority or responsibility for directing or controlling the major activities of the body during the year should be disclosed in the remuneration

and staff report. The approach taken by RoS is consistent with that adopted in previous years. Officers have agreed to continue to review the basis for disclosing senior employees in the remuneration and staff report to ensure RoS complies with the FReM.

Recommendation 1

RoS should review the basis on which it discloses senior employees in the remuneration and staff report to ensure it complies with the spirit of the FReM and maintains openness and transparency.

24. We reviewed the register of interests for Board members. We found that many of the records had not been updated since early 2015 and two records had not been updated since 2014. Maintaining an up to date register of interests helps identify potential conflicts of interest and is an important means of demonstrating and ensuring openness and transparency in organisational decision making. Officers have agreed to ensure Board members are made aware of the importance of maintaining their registers of interest on an ongoing basis.

Recommendation 2

RoS should ensure Board members are aware of the requirement to review and, where required, update their register of interests on an ongoing basis.

25. During our audit testing we noted differences between the asset values recorded in RoS' fixed asset register and the corresponding values recorded in its financial ledger. The individual differences are not material and the net book values for each category of asset have been correctly recorded in the financial statements. However, it is important that RoS maintains an accurate record of its assets to ensure it correctly accounts for these in future years.

Recommendation 3

RoS should review its fixed asset register and take corrective action to ensure individual assets are accurately recorded.

26. In June 2017, a criminal trial into property and mortgage fraud concluded with two defendants being found guilty of a significant number of charges. This case may have financial implications for RoS if the victims seek to recover damages through indemnity claims. As of July 2017, no claims have been received and therefore RoS cannot quantify the extent of the financial impact. A contingent liability has therefore been disclosed in the financial statements. We are satisfied that this accounting treatment is appropriate. Officers should keep the contingent liability disclosure under review up to the date the financial statements are signed by the accountable officer to confirm it remains appropriate.

27. Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Part 2

Financial management



Main judgements

Ros effectively managed its finances in 2016/17.

Systems of internal control operated effectively in 2016/17.

RoS has satisfactory budget monitoring and control arrangements in place.

Financial performance in 2016/17

28. RoS is a non-ministerial department operating as a trading fund. It provides statutory and non-statutory services on a fee-charging basis and uses the income to fund its expenditure. RoS makes no claim on the Scottish Consolidated Fund.

29. Statutory fees and financial objectives are set by Scottish Ministers with a view to ensuring income is sufficient to meet expenditure. This is done across a multi-year period to ensure funding is available for investment in addition to day-to-day running costs.

30. RoS's financial performance for 2016/17 is shown in [Exhibit 4](#).

Exhibit 4

Performance against budget in 2016/17

Performance	Final budget £m	Actual outturn £m	Difference from budget £m
Statutory income	68.1	64.0	(4.1)
Non statutory income	8.1	8.6	0.5
Total Income	76.2	72.6	(3.6)
Salary costs	43.3	49.8	6.5
Non salary costs	29.1	22.6	(6.5)
Total Expenditure	72.4	72.4	0
Profit/(Loss)	3.8	0.2	(3.6)

Source: Registers of Scotland performance and financial management report (May 2017), Registers of Scotland annual report and accounts

31. RoS made a profit of £0.2 million in 2016/17 which was less than the budgeted profit of £3.8 million forecast in its corporate plan. This was due to operational income being less than forecast. RoS's income is demand led and can fluctuate depending on the strength of the housing market. RoS retains profits from previous years to manage these fluctuations.

32. We are satisfied that RoS effectively managed its finances in 2016/17.

Internal controls

33. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that RoS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

34. Our findings were included in an interim audit report presented to the Audit Committee in April 2017. We identified a small number of control weaknesses. None of these was significant enough to affect RoS' ability to effectively record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Budgetary processes

35. We also reviewed RoS' budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports and review of Board papers we confirmed that Board members receive regular, timely and up to date financial information on the financial position.

36. We concluded that RoS has satisfactory budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Prevention and detection of fraud and irregularity

37. We assessed RoS' arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the counter fraud strategy.

38. We concluded that RoS had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

39. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error ([Exhibit 5](#)).

Exhibit 5

Total number of matches



304

Number recommended for investigation



79

Completed/closed investigations



79

Source: Registers of Scotland

40. The exercise identified 304 matches with 79 recommended for investigation. RoS has investigated all the matches recommended for investigation and will report the outcome of NFI activity to the Audit Committee in February 2018.

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

41. We have reviewed the arrangements in place to maintain standards of conduct including the staff handbook and Civil Service and members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

42. Based on our review of the evidence we concluded that RoS has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgements

RoS has established a sound basis for financial sustainability.

RoS should continue to develop longer term financial plans.

Financial planning

43. RoS' corporate plan covers a rolling three year period and includes a high level financial forecast estimating income, expenditure and the resulting operating surplus or loss. RoS' current corporate plan covers the period from 2017 to 2020.

44. RoS is forecasting an operating loss of £10.1 million in 2017/18. This is due to continued investment in its business transformation programme to make RoS a fully digital business by 2020. The corporate plan forecasts surpluses of £2.1 million and £3.4 million in 2018/19 and 2019/20 respectively.

45. The Board carries out a twice yearly review of RoS' reserves strategy and the adequacy of medium term reserves over the period of its current corporate plan. The last review was carried out in May 2017 and concluded that the current reserves policy should be retained. The review identified three main areas of uncertainty:

- property market conditions
- the level of efficiencies achievable from RoS' business transformation programme
- the costs associated with land register completion.

Based on current corporate plan forecasts, reserves are expected to grow to around £111 million by 2020.

46. RoS is aware of the importance of maintaining a prudent level of reserves to manage uncertainties and has appropriate arrangements in place for reviewing its reserves strategy.

2016/17 financial position

47. The Statement of Financial Position summarises what is owned and owed by RoS. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of assets.

48. The annual accounts show that:

- RoS made a comprehensive surplus of £0.2 million in 2016/17

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

- RoS' net assets increased by £0.1 million to £90.6 million
- RoS has retained profits of £86.5 million as at 31 March 2017.

49. We have concluded that RoS has established a sound basis for financial sustainability with retained profits held to manage year-on-year fluctuations in income.

Medium to long term financial planning

50. We reviewed the financial planning processes and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

51. RoS' corporate plan for 2017-20 includes high level financial forecasts for 2017/18, 2018/19 and 2019/20. The financial model which underpins this forecast includes projections for years four and five. We have previously recommended that RoS extends its financial planning. RoS is continuing work to develop a longer term financial strategy which includes the use of scenario planning.

Part 4

Governance and transparency



Main judgements

RoS has effective governance arrangements in place; it may wish to consider whether there are opportunities to further enhance transparency.

RoS' risk management processes are operating effectively and are fully embedded within its overall governance arrangements.

Governance arrangements

52. RoS' governance arrangements are set out in its framework document which is refreshed every three years. The corporate governance framework within RoS is centred around the Board. The role of the Board is to provide strategic advice to the keeper. The keeper is responsible for the efficient and effective operation of RoS, for leading its staff, and for statutory functions in relation to the management, control and maintenance of the various public registers. The Board is supported in its role by the Audit Committee which is a non-executive committee of the Board.

53. We reviewed RoS' governance arrangements. Our key findings are:

- Board members provide an appropriate level of scrutiny and challenge of strategic decisions
- Board members are provided with sufficiently detailed information to support them in their role
- the Chair and other Board members understand their roles and responsibilities
- Board members receive appropriate induction training to allow them to fulfil their role
- RoS should consider formally assessing the performance of the Chair on a regular basis.

54. We concluded that RoS has effective governance, decision making and scrutiny arrangements in place which provide an appropriate framework for organisational decision making.

The Annual Governance Statement

55. Under the FReM, RoS must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

56. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping process which underpinned the preparation of the governance statement.

57. We concluded that the 2016/17 annual governance statement complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed presents an accurate picture of governance arrangements and matters.

Internal audit

58. Internal audit provides RoS and the Accountable Officer with independent assurance on RoS' overall risk management, internal control and corporate governance processes.

59. The internal audit function is carried out by PwC. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

60. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we reviewed and considered the findings of the following internal audit reports:

- Financial controls – purchasing and payables
- Land Registration Completion project review
- Fraud management.

Risk management

61. We reviewed the risk management processes within RoS. RoS maintains a key risk register. This is discussed on a regular basis at Board and Audit Committee meetings. The risk register is the result of an annual risk review workshop held with members of the Board and Audit Committee. The risk register covers all key elements required to manage each risk including:

- the risk owner
- impact and probability
- risk rating
- risk appetite
- actions in place to manage and mitigate the risk.

62. We concluded that risk management processes are operating effectively and are fully embedded within RoS' governance arrangements.

Transparency

63. Transparency means that stakeholders, including the public, have access to understandable, relevant and timely information about how RoS is taking decisions and how it is using its resources.

64. Minutes of Board meetings are published on the Registers of Scotland website. Board papers and Audit Committee agendas, minutes and papers are not published.

65. With increasing expectations for enhanced openness in the conduct of public business RoS may wish to consider whether there are opportunities to further enhance transparency. For example, RoS could consider making available Board and Audit Committee papers where appropriate.

Part 5

Value for money



Main judgements

RoS should continue to develop workforce planning to reflect its business transformation programme and objective to become a fully digital business by 2020.

RoS should continue to manage the resource implications of meeting the 2024 target for land register completion.

Best Value

66. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether Accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with RoS agree to undertake local work in this area. We did not undertake any specific work in this area in 2016/17.

Business transformation programme

67. RoS has committed to be a fully digital organisation by 2020 and intends to achieve this through successfully delivering its business transformation programme. The programme, which was launched in January 2015, includes a range of projects which are central to how the organisation will deliver its services in the future.

68. RoS completed a range of business transformation work in 2016/17. This included:

- launching a digital discharge service to improve the efficiency of the mortgage discharge process
- moving to a new data centre
- launching its development plan approval and plan assistance services to improve the registration process.

The Board has approved £4.7 million spend for the business transformation programme in 2017/18. RoS plan to use this expenditure to continue to make efficiencies in service delivery and further improve the experience of its customers.

69. The RoS Board undertook a workshop on workforce planning in early 2017. Board members agreed that workforce planning is a key area of activity for RoS given the level of change within the organisation. RoS has prepared a high level summary of the impact of its business transformation programme on current and future staffing requirements. This outlines the resources required at each grade in the next three financial years. RoS should continue to develop workforce planning to take account of changes to how it delivers services.

Value for money is concerned with using resources effectively and continually improving services.

Land register completion

70. In 2014 Scottish Ministers announced targets for land register completion, with all public sector land to be registered by 2019 and all remaining tracts by 2024. RoS has continued to progress completion of the land register in 2016/17 by working with large public and private sector bodies to promote voluntary registration of land. In addition RoS launched its first round of keeper induced registrations in November 2016. 62 per cent of land and property titles and 29.7 per cent of land mass in Scotland is now registered.

71. The target for land register completion remains challenging to achieve and will continue to have a significant impact on RoS' financial and workforce planning. RoS needs to ensure it adequately plans and manages its resources to ensure it can achieve the target alongside providing existing services.

Recommendation 4

RoS should continue to manage the resource implications of meeting the 2024 target for land register completion.

National performance audit reports

72. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to RoS. These are outlined in [Appendix 3](#) accompanying this report.

73. RoS' Audit Committee periodically considers relevant Audit Scotland reports.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page no.	Issue/risk	Recommendation	Agreed management action/timing
8-9	<p>1. Remuneration report</p> <p>RoS has disclosed the remuneration and pension interests of its Board members in the remuneration and staff report. The interests of executive directors who are not members of the Board have not been disclosed. This includes the Registration and Transformation Director and the Digital Director. Under the FReM the interests of directors with authority or responsibility for directing or controlling the major activities of the body during the year should be disclosed in the remuneration and staff report. The approach taken by RoS is consistent with that adopted in previous years. Officers have agreed to continue to review the basis for disclosing senior employees in the remuneration and staff report to ensure RoS complies with the FReM.</p> <p>Risk</p> <p>The remuneration and staff report does not provide users with a complete picture of the management team responsible for directing or controlling the major activities of RoS.</p>	<p>RoS should review the basis on which it discloses senior employees in the remuneration and staff report to ensure it complies with the spirit of the FReM and maintains openness and transparency.</p>	<p>RoS will continue to review senior employees disclosure to ensure compliance and will discuss this at the August board.</p> <p>Responsible officer: Operations director</p>
9	<p>2. Register of interests</p> <p>We reviewed the register of interests for Board members. We found that many of the records had not been updated since early 2015 and two records had not been updated</p>	<p>RoS should ensure Board members are aware of the requirement to review and, where required, update their register of interest on an ongoing basis.</p>	<p>Board members declare any interests at the start of meetings, however the formal register of interests will be updated and signed off each year.</p> <p>Responsible officer:</p>



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

since 2014. Maintaining an up to date register of interests helps identify potential conflicts of interest and is an important means of demonstrating and ensuring openness and transparency in organisational decision making. Officers have agreed to ensure Board members are made aware of the importance of maintaining their registers of interest on an ongoing basis.

Risk

RoS cannot demonstrate the probity of key organisational decisions.

Secretariat

9

3. Accuracy of asset register

During our audit testing we noted differences between the asset values recorded in RoS' fixed asset register and the corresponding values recorded in its financial ledger. The individual differences are not material and the net book values for each category of asset have been correctly recorded in the financial statements. However, it is important that RoS maintains an accurate record of its assets to ensure it correctly accounts for these in future years.

Risk

Capital is incorrectly accounted for in future financial statements.

RoS should review its fixed asset register and take corrective action to ensure individual asset values are accurately recorded.

The process of review and correction is underway and will be completed by end September.

Responsible officer: Head of finance

19

4. Land register completion

In 2014 Scottish Ministers announced targets for land register completion, with all public sector land to be registered by 2019 and all remaining tracts by 2024. RoS has continued to progress completion of the land register in 2016/17 by working with large public and private sector bodies to promote voluntary

RoS should continue to manage the resource implications of meeting the 2024 target for land register completion.

The strategic workforce plan (SWP) is being reviewed by EMT on a quarterly basis to consider all resource implications of business activity. The SWP continues to be developed to ensure all factors and impacts are transparent to aid decision making.

Responsible officer:



**Page
no.**

Issue/risk

Recommendation

**Agreed management
action/timing**

registration of land. In addition RoS launched its first round of keeper induced registrations in November 2016. The target for land register completion remains challenging to achieve and will continue to have a significant impact on RoS' financial and workforce planning.

Risk

RoS does not have adequate resources to meet the 2024 target for land register completion. The level of work required adversely affects RoS' financial position and its ability to provide existing services.

Operations director

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We concluded from our audit testing that all 2016/17 journal entries, accounting estimates and judgements, and significant transactions we reviewed were appropriate.</p> <p>No issues were highlighted from our controls and year end testing that would indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>ISA 240 also requires auditors to presume a risk of fraud where income streams are significant. In 2015/16, RoS received 88 per cent (£62 million) of its income from statutory fees and 12 per cent (£7.8 million) from non-statutory, commercial activity. RoS does not receive funding from the Scottish Government.</p>	<p>Analytical procedures on income streams.</p> <p>Controls testing on income.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>We confirmed through audit testing that revenue had been recognised appropriately in the financial statements.</p>
<p>3 Provisions and contingent liabilities</p> <p>During the 2015/16 audit we identified a number of issues in relation to provisions and contingent liabilities disclosures. These related to work-in-progress calculations, VAT liability, Hanover House dilapidation costs and a significant indemnity payment (£1 million) not previously</p>	<p>Examination of the accuracy, completeness and valuation of a disclosure in the 2016/17 financial statements.</p> <p>Regular discussions with management.</p>	<p>We confirmed through audit testing and discussion with management that provisions and contingent liabilities have been accurately disclosed in the financial statements.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>provided for.</p> <p>There is a risk that provisions and contingent liabilities disclosures are not complete.</p>		
<p>4 Work-in-progress calculations</p> <p>Work-in-progress calculations are complex and are finalised immediately prior to the issue of the draft accounts for audit. Prior year audit testing identified two significant errors requiring adjustments in the 2015/16 financial statements. In addition, the calculations were not subject to secondary review.</p> <p>The absence of management review of complex judgements increases the risk of error occurring in the financial statements.</p>	<p>Examination of the accuracy and valuation methodology in 2016/17 financial statements.</p>	<p>We found no significant issues from our testing of work-in-progress.</p>
<p>5 Accounts approval</p> <p>In common with previous years, there will be a notable time gap between the Audit Committee's consideration of the annual report and accounts (19 July) and the Board's planned approval at the end of August 2017.</p> <p>There is a risk that significant post balance sheet events occur that are not reflected in the signed accounts. The main risk relates to any new or concluding indemnity claims during this period.</p>	<p>Review of evidence provided before the Board's meeting.</p> <p>Obtaining formal confirmation ISA580 letter from management.</p> <p>Discussions with management during July and August.</p>	<p>We will continue to monitor developments between the Audit Committee and Board meetings and consider whether there are significant post balance sheet events requiring disclosure in the financial statements.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>6 Financial sustainability</p> <p>We note that RoS does not have a long term (5-10 year) financial strategy in place. Developing and maintaining a long-term financial strategy will help set the context for annual budgets approved by the board. It will also help clarify the overall financial sustainability of the organisation over an extended period and can help identify problems with affordability at an early stage</p>	<p>Monitor progress on medium to long-term financial planning.</p> <p>Monitoring of quarterly finance reports.</p> <p>Review of LRC ten year planning horizon papers.</p> <p>Ledger interrogation through the use of data analytics.</p>	<p>We reviewed RoS' corporate plan which includes three year financial forecasts. RoS should continue to develop longer term financial plans.</p>
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Audit Risk	Assurance procedure	Results and conclusions
<p>given the organisation's susceptibility to income fluctuations due to the housing market.</p> <p>There is a risk that decisions may be taken without a clear understanding of the financial implications beyond the current financial year and how they affect the overall financial sustainability of RoS.</p>		
<p>7 Workforce planning</p> <p>Workforce planning is a key element of assessing and shaping the future requirements and structure of the organisation's workforce.</p> <p>Without an effective organisation-wide workforce plan, there is a risk that workforce decisions may be uncoordinated leading to decisions in one area having unintended consequences in another.</p> <p>An effective workforce plan, including capacity planning, is essential for RoS as they aim to deliver complex programmes (Land Registration Completion and Business Transformation Project).</p>	<p>We will monitor progress on workforce planning arrangements throughout the year.</p>	<p>We confirmed that RoS has prepared a high level summary of the impact of its business transformation programme on current and future staffing requirements. RoS should continue to develop workforce planning.</p>
<p>8 Business Transformation Programme (BTP) and Land Registration Completion (LRC)</p> <p>RoS is working to deliver two interrelated programmes, LRC and BTP. LRC is aimed at achieving Scottish Ministers' targets for Land Register Completion, with all public sector land to be registered by 2019 and all remaining tracts by 2024. The BTP aims to improve and digitalise the registration process and is central to how the organisation will deliver its services in the future.</p> <p>Both programmes will have a significant impact on financial and workforce planning. Their size and scale mean they bring significant financial, reputational and service delivery risks. It is</p>	<p>Review progress on the delivery of the programmes, through documentation review and discussions with management.</p>	<p>We confirmed that RoS has made progress in delivering both programmes but further work is needed to meet the target dates for completion.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>therefore crucial that effective project management arrangements remain in place throughout the course of the programmes to ensure successfully delivery on time and within budget.</p>		
<p>9 Cyber security</p> <p>Maintaining the land register is a key function in facilitating economic activity in Scotland. There is a risk that access to IT systems or the integrity of the registers could be compromised as a result of a cyber attack, restricting the ability to update the registers or causing a loss of key data.</p> <p>Registers of Scotland are currently reviewing their cyber security arrangements, including carrying out a health check. A cyber security strategy is being developed as part of the arrangements.</p>	<p>We will review the Corporate Risk Register to ensure that the risks relating to the potential of cyber attacks were being appropriately managed.</p> <p>We will discuss with IT management the approaches being taken to monitor and mitigate cyber risks, including cyber security strategy delivery and Head of Security.</p> <p>We will also issue our Your Business at Risk (YB@R) survey for RoS staff to complete which will aid our understanding of risks in this area and inform management of their employees' attitudes towards IT security.</p>	<p>We reviewed the risk register and found that the risk of a cyber attack, information security or data protection breach is the top risk. The risk register sets out a range of controls and actions in place to mitigate the risk.</p> <p>We agreed with the Accountability Officer that we would defer our YB@R survey until later in the five year audit appointment in light of a similar survey and internal audit activity in this area.</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

Central Government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Supporting Scotland's economic growth](#) – July 2016

[Scotland's new financial powers](#) – September 2016

[Managing new financial powers: an update](#) – March 2017

Registers of Scotland

2016/17 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk