

Registers of Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for Registers of Scotland
February 2021

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual report and accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to make to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).

Adding value


5. We aim to add value to Registers of Scotland (RoS) by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help RoS promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Registers of Scotland. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Cut-off testing to confirm income and expenditure is accounted for in the correct financial year. • Identification and evaluation of significant transactions which are outside the normal course of business.
<p>2 Risk of error in estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas: non current assets, including the capital and revenue split of IT projects; and provisions accounting for indemnity payments and work in progress calculations.</p> <p>The uncertainty over income from fees and the wider impact of Covid-19 on the organisation may significantly affect work in progress.</p> <p>The value of these estimation areas and their subjectivity represents an increased risk of misstatement.</p>	<ul style="list-style-type: none"> • Well established arrangements and processes, using relevant experts from the business to support their calculation. 	<ul style="list-style-type: none"> • Examination of the accuracy, completeness and valuation of disclosures in the 2020/21 financial statements. • Detailed testing of related income and expenditure. • Regular discussions with management. • Walkthrough of controls around the work-in-progress calculation and evaluation of the assumptions. • Consideration of internal audit's review of indemnity payments.
<p>3 Risk of error in accounting for reclassification of RoS</p> <p>RoS's income and expenditure now falls within the Scottish Government's accounting boundary. As a result budgeting, accounting and financial reporting requirements have changed.</p> <p>There is a risk that central government accounting and financial reporting requirements are not correctly implemented.</p>	<ul style="list-style-type: none"> • The Scottish Government has provided training for finance staff on the new arrangements, accounting guidance and central government requirements. 	<ul style="list-style-type: none"> • Examination of disclosures made in the annual report and accounts for compliance with the change in status. • Consideration of internal audit's report on reclassification including budgeting.

	Audit Risk	Source of assurance	Planned audit work
Wider dimension risks			
4	<p>Risk to financial sustainability and management</p> <p>RoS's change in status to a central government body means it no longer has reserves to call upon for future investment and to deal with any volatility in the housing market.</p> <p>This is a fundamental change to RoS's funding and investment model at a time when income from fees has been significantly impacted by the Covid-19 pandemic.</p> <p>There remains risk that long-term plans and targets are no longer affordable or achievable.</p>	<ul style="list-style-type: none"> Financial reporting to governance committees is timely and good quality. RoS has a well established system of budget setting, scenario planning and financial reporting. 	<ul style="list-style-type: none"> Review governance committee papers. Review revised longer-term plans, strategies and forecasts. Consideration of internal audit's report on financial governance and corporate planning.
5	<p>Changes to governance arrangements</p> <p>There is an increased risk to governance and transparency and counter-fraud arrangements associated with the Covid-19 pandemic.</p> <p>RoS adapted quickly during 2020 and arrangements it put in place allowed it to continue operating. There is a risk that these changes impacted on the effectiveness of the governance and counter-fraud arrangements during 2020/21.</p>	<ul style="list-style-type: none"> RoS has well established counter-fraud arrangements and participates in the National Fraud Initiative. Well established governance arrangements which were adapted and kept under review in 2020/21. 	<ul style="list-style-type: none"> Review of governance committee papers and decision making. Consideration of internal audit's review of working from home arrangements, furlough payments, procurement and financial governance. Monitor progress in following up NFI matches

Source: Audit Scotland

7. As set out in ISA (UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 due to the extent of income now received from the Scottish Government and that the remaining income streams are from fees which are fixed and prepaid.

8. In line with Practise Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2020/21 as the nature of RoS's expenditure is predominantly on staff costs, supplies and services, including professional fees, and is therefore low risk.

Reporting arrangements

9. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: www.audit-scotland.gov.uk.

10. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant staff to confirm factual accuracy.

11. We will provide an independent auditor's report to RoS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

12. Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

13. The target dates below are provisional and are based on the audit timetable for the 2019/20 financial audit. However, these may be subject to change as the impact of Covid-19 becomes clearer. We will continue to liaise closely with the Audit and Risk Committee and the RoS finance team as part of the 2020/21 audit.

Exhibit 2

2020/21 Audit outputs

Audit Output	Provisional target date	Provisional committee date
Annual Audit Plan	5 February 2021	17 February 2021
Management Report	27 April 2021	11 May 2021
Annual Audit Report	06 August 2021	20 August 2021
Independent Auditor's Report	15 September 2021	15 September 2021 (B)

Source: Audit Scotland

Audit fee

14. The proposed audit fee for the 2020/21 audit of RoS is £53,890 (£53,210: 2019/20), an increase of 1.3 per cent. In determining the audit fee we have taken account of the risk exposure of RoS Registers of Scotland, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts, with a complete working papers package on 14 June 2021.

15. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit and Risk Committee and Accountable Officer

16. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

17. The audit of the annual report and accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

18. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

19. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

20. Carole Grant, Audit Director, is the new appointed auditor and engagement lead. The audit team will continue to be led by Morag Campsie, Senior Manager.

Audit scope and timing

Annual report and accounts

21. The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Registers of Scotland and the associated risks
- assessing the key systems of internal control, and establishing the impact of any identified weaknesses
- identifying major transaction streams, balances and areas of estimation and understanding how RoS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

22. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Statutory other information in the annual report and accounts

23. We also review and report on statutory other information published within the annual report and accounts including the performance report and accountability report, including the corporate governance report and remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

24. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

25. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

26. We calculate materiality at different levels as described below. The calculated materiality values for RoS are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2021 based on the latest budget position (November 2020)	£0.877 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 65% of planning materiality to reflect RoS's change in status and funding arrangements.	£0.570 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£45,000

Source: Audit Scotland

Timetable

27. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. Audit Scotland is currently reviewing its overall resources for the 2020/21 audit year. As set out in [paragraph 4](#), we will continue to take a pragmatic and flexible approach to enable us to respond to emerging issues and risks. We are in discussions with RoS senior management about potential dates for the audit and will update the Audit and Risk Committee once agreed.

Internal audit

28. Internal audit is provided by the Scottish Government Internal Audit Directorate. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

29. Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication.

30. From our initial review, we plan to place formal reliance on the work internal audit are completing on payroll controls. We will also consider other internal audit reports as part of the audit, including those detailed in [Exhibit 1](#).

Audit dimensions

31. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 4](#).

Exhibit 4 Audit dimensions



Source: Code of Audit Practice

Financial sustainability

32. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether RoS can demonstrate the affordability and effectiveness of funding and investment decisions.

Financial management

33. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether RoS has arrangements in place to ensure systems of internal control are operating effectively
- whether Ros can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how RoS has assured itself that its financial capacity and skills are appropriate
- whether RoS has established appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

Governance and transparency

34. 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. We will review, conclude and report on:

- whether RoS can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency of decision-making
- the quality and timeliness of financial and performance reporting.

Value for money

35. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether RoS can:

- provide evidence that it is demonstrating value for money in the use of its resources
- demonstrate that there is a clear link between money spent, output and outcomes delivered
- show that outcomes are improving.

36. In 2019/20 we highlighted that RoS was at risk of not being able to deliver its strategic objective to complete the land register by 2024. Reduced staff availability and productivity during 2020/21 due to the Covid-19 pandemic may have impacted on this further. We will assess how this is being monitored and addressed. This will include a review of what progress is being made with strategic and workforce planning.

Best Value

37. The Accountable Officer of RoS has a duty to ensure arrangements are in place to secure best value. We will review and report on these arrangements as appropriate.

Independence and objectivity

38. Auditors appointed by the Auditor General for Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

39. The engagement lead (i.e. appointed auditor) for RoS is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of RoS.

Quality control

40. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

41. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

42. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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