

# Registers of Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Registers of Scotland  
January 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and other relevant guidance. The plan identifies our audit work to provide an opinion on the financial statements and related matters. It also outlines the wider scope requirements of public audit in contributing to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. We identified the following main risk areas for Registers of Scotland (RoS). These are based on our discussions with staff, attendance at audit committee meetings and a review of supporting information. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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>Owing to the nature of this risk, assurances from management are not applicable.</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><b>2 Risk of fraud over income</b></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>Key controls working effectively in income related systems.</p> <p>Counter fraud arrangements are well established and working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Internal audit work on bank receipts and collection procedures.</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>

Audit Risk	Management assurance	Planned audit work
<p><b>3 Provisions and contingent liabilities</b></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 provided for.</p> <p>There is a risk that provisions and contingent liabilities disclosures are not complete.</p>	<p>The finance section will liaise with the relevant services, including legal services, to provide up-to-date position regarding provisions and contingent liabilities for inclusion in the 2016/17 financial statements.</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><b>4 Work-in-progress calculations</b></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>Additional time will be built into the process to allow for independent checking. Further internal checks will also be built into the spreadsheets to highlight possible errors.</p>	<p>Examination of the accuracy and valuation methodology in 2016/17 financial statements.</p>
<p><b>5 Accounts approval</b></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>Verbal and written assurances will be provided to auditors before signing of the accounts in August 2017.</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><b>Wider dimension risks</b></p>		
<p><b>6 Financial sustainability</b></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</p>	<p>Development of a 5-10 year strategy, including scenario planning.</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</p>

Audit Risk	Management assurance	Planned audit work
<p>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 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>planning horizon papers.</p> <p>Ledger interrogation through the use of data analytics.</p>
<p><b>7 Workforce planning</b></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>Short-term capacity and workforce plans are reassessed (number of staff by grade) during the quarterly forecast.</p> <p>Strategic workforce planning models will be extended from number of staff by grade to include other key variables (e.g. skills, age) as appropriate to the business needs.</p> <p>Capacity plans &amp; the related workforce plan at different horizons will be reassessed as needed, to reflect changes in projected demands and supply capabilities.</p>	<p>We will monitor progress on workforce planning arrangements throughout the year.</p>
<p><b>8 Business Transformation Programme (BTP) and Land Register Completion (LRC)</b></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</p>	<p>Provide regular updates to Executive Management Team.</p> <p>Encourage Voluntary Registration (VR) by public and private sectors.</p> <p>Undertake Gateway and internal audit reviews.</p>	<p>Review progress on the delivery of the programmes, through documentation review and discussions with management.</p>

Audit Risk	Management assurance	Planned audit work
<p>and workforce planning. Their size and scale mean they bring significant financial, reputational and service delivery risks. It is 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><b>9 Cyber security</b></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>Cyber security assessments are undertaken with a 10-step programme, a third party health check which is currently on-going and a further audit is planned by PWC.</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>

## Reporting arrangements

3. This annual audit plan will be published on our website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). We will also publish the planned audit outputs as detailed in [Exhibit 2](#), as well as any other outputs on matters of public interest.
4. 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 officer(s) to confirm factual accuracy.
5. We will provide an independent auditor's report to Registers of Scotland, the Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.
6. 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 the Scottish Parliament within nine months of the financial year-end i.e. 31 December.

## Exhibit 2

### 2016/17 Audit outputs

Audit output	Target date	Audit Committee (AC)/Board (B) Date
Annual Audit Plan	February 2017	7 February 2017 (AC)
Interim Report	April 2017	21 April 2017 (AC)
Annual Audit Report including ISA 260 requirements	July 2017	19 July 2017 (AC)
Signed Independent Auditor's Report	September 2017	29/30 August 2017 (B)

### Audit fee

**7.** The proposed audit fee for the 2016/17 audit of RoS is £54,617. In determining the audit fee we have taken account of the risk exposure of RoS, 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 financial statements with a complete working papers package by 26 May 2017.

**8.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity. For example, audit work associated with providing an assurance statement certifying costs relating to RoS' role in processing Land and Buildings Transaction Tax (LBTT) on behalf of Revenue Scotland.

### Responsibilities

#### Audit Committee and Accountable Officer

**9.** 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.

**10.** The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

**11.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**12.** Auditors in the public sector give an independent opinion on the financial statements. 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.

# Audit scope and timing

## Financial statements

**13.** The statutory financial statements audit will be the foundation and source for the majority 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 RoS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- 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.

**14.** We will give an opinion on the financial statements as to whether:

- they have been prepared, and 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 and of its retained surplus
- they have been properly prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2016/17 Financial Reporting Manual
- expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers (in all material aspects).

## Materiality

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. 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 level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at one per cent of gross income estimated at 31 March 2017 and based on the November 2016 budget performance report.	£0.704 m
<b>Performance materiality</b> - 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 per cent of planning materiality.	£0.493 m
<b>Reporting threshold</b> - 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 approximately four per cent of planning materiality.	£0.030 m

16. We review and report on other information published with the financial statements including the performance report and the remuneration and staff report. Any issue identified will be reported to the Audit Committee.

### Timetable

17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited RoS' financial statements with complete working papers package	26 May 2017
Latest date for final clearance meeting with the head of finance	30 June 2017
Agreement of audited unsigned financial statements; Issue of draft Annual Audit Report including ISA 260 report to those charged with governance	12 July 2017
Independent auditor's report signed and Annual Audit Report finalised	29/30 August 2017

### Internal audit

18. 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 and as part of our planning process we

carry out an assessment of the internal audit function. Internal audit is provided by PWC.

### Adequacy of Internal Audit

**19.** We plan to carry out a review of the effectiveness of the internal audit function to ensure it operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

### Areas of reliance

**20.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit review:

- Financial controls - purchasing and payables

**21.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Land Registration Completion project review
- Cloud in a box
- Fraud management
- Delivery and Impact of Organisational Restructuring

### Audit dimensions

**22.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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## Exhibit 5

### Audit dimensions




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### Financial sustainability

**23.** 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 the RoS' financial sustainability in the longer term. We define this as 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
- whether RoS can demonstrate the affordability and effectiveness of investment decisions it has made.

### **Financial management**

**24.** 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 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 for the prevention and detection of fraud and corruption.

### **Governance and transparency**

**25.** 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 on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting
- implementation of the recommendations from Audit Scotland's 'The Role of Boards' report published in 2010
- progress on investigating any matches identified through the National Fraud Initiative.

### **Value for money**

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

- Registers of Scotland can provide evidence that it is demonstrating value for money in the use of its resources.
- RoS can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- RoS can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

## Independence and objectivity

**27.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**28.** The engagement lead and appointed auditor for RoS is Stephen Boyle, Assistant 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

**29.** 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.

**30.** 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**31.** 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.

# Registers of Scotland

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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