

Registers of Scotland

Annual Audit Plan 2017/18



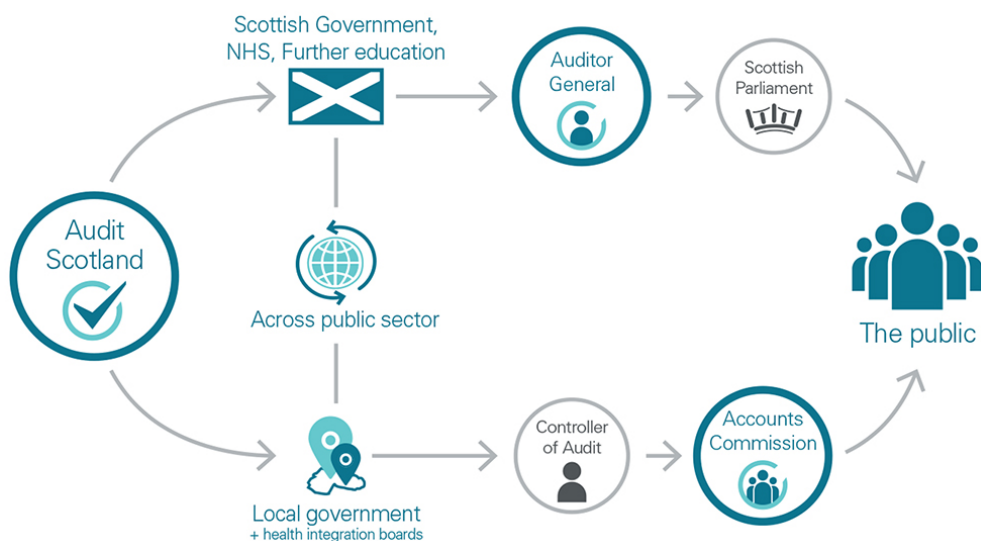
 AUDIT SCOTLAND

Prepared for Registers of Scotland
January 2018

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 any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at audit committee meetings and a review of supporting information we have identified the following main risk areas for Registers of Scotland (RoS). 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

2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</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>2 Risk of fraud over income and expenditure</p> <p>ISA 240 also requires auditors to presume a risk of fraud where income streams are significant. In 2016/17, RoS received 88 per cent (£64 million) of its income from statutory fees and 12 per cent (£8.6 million) from non-statutory, commercial activity. RoS does not receive funding</p>	<p>Key control processes for income and expenditure are working effectively.</p> <p>Counter fraud procedures are well established and effective.</p> <p>Budget control and monitoring process is robust and properly reported to highest level.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Controls testing on income.</p> <p>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>from the Scottish Government.</p> <p>The risk of fraud over expenditure also exists due to the materiality of expenditure incurred by the Registers of Scotland in carrying out its functions.</p>		
<p>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas: work in progress calculations, capital and revenue split for the IT projects, provisions accounting for indemnity payments and voluntary exit scheme. The number of the estimation areas and their subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Each of these elements have robust processes using relevant experts from the business areas to support them.</p> <p>Further work has taken place on the work in progress calculation to reduce complexity, and sufficient resource will be put to this to quality assure the output.</p>	<p>Examination of the accuracy, completeness and valuation of disclosures in the 2017/18 financial statements.</p> <p>Focused testing of the related expenditure.</p> <p>Regular discussions with management.</p>
<p>Wider dimension risks</p>		
<p>4 Registers of Scotland transformation</p> <p>Over a last few years RoS has been transforming its business towards digitalisation through Business Transformation Programme (BTP) and working to deliver Land Registration Completion (LRC) project. 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.</p> <p>In 2017/18 RoS moved to a second phase of BTP. At the same time RoS is undergoing some key senior staff changes: the Keeper is retiring in March 2018 and Digital Director has left following his contract end.</p> <p>The state of constant change combined with the size and scale of the RoS transformation bring significant organisational, financial and resource risks.</p> <p>It is therefore crucial that effective project management and succession planning arrangements remain in place throughout the course of the</p>	<p>The EMT and Board receive regular updates on BTP and LRC.</p> <p>Internal audits on change process effectiveness and strategic workforce planning.</p> <p>Two new EMT members have been appointed as part of succession planning.</p>	<p>Review progress on the delivery of the programmes, through documentation review and discussions with management.</p>

Audit Risk	Source of assurance	Planned audit work
<p>programmes to ensure delivery on time and within budget.</p>		
<p>5 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 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>Development of a long term financial strategy with key input from accountable officer and chair of audit and risk committee.</p>	<p>Monitor progress on medium to long-term financial planning.</p> <p>Review of reserves and fee strategies.</p> <p>Review of BTP2 detailed business case.</p>
<p>6 Cyber-security and business continuity</p> <p>In the past year public sector organisations in Scotland were subject to an increasing number of cyber-attacks. Successful cyber attacks can result in significant disruptions to operations, loss of data and reputational damage.</p> <p>Maintaining the land register and the other registers are key functions in facilitating economic activity in Scotland.</p> <p>Last year's power failure incidents at RoS demonstrated that moving to digitalised business brings vulnerabilities and highlighted the importance of having effective business continuity arrangements in place.</p> <p>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 or business continuity arrangements failure, restricting the ability to update the registers or causing a loss of key data.</p>	<p>Taskforce project working to ensure core business activities fully protected and effective business continuity processes.</p> <p>Wide range of preventative and corrective controls in place and being taken forward by head of security and risk.</p>	<p>We will review the Corporate Risk Register to ensure that the risks relating to the potential of cyber attacks and business continuity 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>

Audit Risk	Source of assurance	Planned audit work
<p>7 Governance and transparency</p> <p>During our planning work we identified the registers of interest of the Board members are not published on the Registers of Scotland's website.</p> <p>With increasing expectations for enhanced openness in the conduct of public business RoS should update their website.</p>	<p>Accountable officer will raise at the February Board meeting for discussion.</p>	<p>We will review the website and comment in our annual audit report on the progress.</p>

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. 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.

6. We will provide an independent auditor's report to Registers of Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual 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 in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit and Risk Committee (ARC) or Board (B) Date
Annual Audit Plan	February 2018	6 February 2018 (ARC)
Management Report	May 2018	3 May 2018 (ARC)
Annual Audit Report	August 2018	7 August 2018 (ARC)
Independent Auditor's Report	August 2018	21-22 August 2018 (B)

Audit fee

7. The proposed audit fee for the 2017/18 audit of is £51,480 (£50,710 in 2016/17). In determining the audit fee we have taken account of the risk exposure of 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 financial statements, with a complete working papers package on 25 May 2018.

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 and Risk 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 and Risk 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 and other specified information accompanying 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 Registers of Scotland 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 Registers of Scotland 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 give a true and fair view of the financial position of the RoS and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Materiality

15. 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 opinion in the auditor's report.

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



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross income for the year ended 31 March 2018 based on the budget estimates information.	£0.780m
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 planning materiality.	£0.546m
Reporting threshold (i.e. clearly trivial) – 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 5% of planning materiality.	£0.04m

Source: Audit Scotland



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

Timetable

18. 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 and Risk Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	25 May 2018
Latest date for final clearance meeting with the head of finance	29 June 2018
Agreement of audited unsigned annual accounts Issue of Annual Audit Report including ISA 260 report to those charged with governance	12 July 2018
Independent auditor's report signed	21-22 August 2018

Internal audit

19. 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

20. 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 internal audit reliance

21. To support our audit opinion on the financial statements we plan to consider the following planned internal audit reviews:

- Payroll and Expenses.

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

- Organisational Development
- Change Process Effectiveness.

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

24. 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
- 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 it has made.

Financial management

25. 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

26. 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.

Value for money

27. 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

28. Auditors appointed by the Accounts Commission or Auditor General 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 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

29. The engagement lead and appointed auditor for Registers of Scotland 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 Registers of Scotland.

Quality control

30. 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.

31. 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

32. 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.

Adding Value

33. Through our audit work we aim to add value to Registers of Scotland. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Registers of Scotland has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

Registers of Scotland

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