

# Registers of Scotland

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for Registers of Scotland

April 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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# Audit findings

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## Introduction

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

- gaining an understanding of the main financial systems and their controls
- testing of key controls within the income system
- substantive testing of payroll, income and expenditure items
- testing of voluntary exit scheme and its governance arrangements.

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

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

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

4. We will use the results of this testing to determine our approach during the 2017/18 financial statements audit.

## Conclusions

5. We identified a number of key control weaknesses from our interim audit work. We will be carrying out additional work in response to these findings.

6. We have not identified any issues in relation to substantive testing of income and payroll. However, we identified some issues in relation to the capitalisation of expenditure for IT projects.

7. As a part of our wider dimension audit work we established that the voluntary exit scheme (VES) complied with the general 2010 rules of Civil Service Compensation Scheme. However, for 31 out of 138 of voluntary exits the payback period exceeded 18 months which was the maximum period agreed with the Scottish Government (SG). Although, we also note that majority of those cases (22) were in relation to staff working on reduced hours.

8. Our review of the internal audit function confirmed it operates in accordance with PSIAS.

9. All issues we identified are as summarised in [Exhibit 1](#) overleaf.

## Work summary

**10.** Our 2017/18 testing covered key controls in a number of areas including payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, our testing covered budget monitoring and control, feeder system reconciliations and controls for preventing and detecting fraud.



### Payroll controls



### IT access



### Budgets

**11.** In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.

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

**13.** We reviewed the 2017/18 voluntary exit scheme to ensure it complies with the policy, the business case is appropriate, payback period was used and not exceeded and that the scheme was in accordance with the terms that SG approved.

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

## Risks identified

**15.** The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

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

## Exhibit 1

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<b>Audit dimensions – governance and value for money</b>		
<b>Voluntary exit scheme</b> In 2017/18 RoS ran a voluntary exit scheme. We assessed the overall	In part it is when someone worked full time in their earlier career so they have built up longer service and then gone part time later on so the divider for the payback is lower.	Stephen Welham 25 May 2018

Issue identified	Management response	Responsible officer and target date
<p>governance arrangements and have tested 15 voluntary exit cases out of a total of 138. We had identified that in 4 cases the payback period exceeded 18 months that was the maximum period approved by the Scottish Government for the individual cases.</p> <p>Based on those initial results we did a high level review of all the approved voluntary exits and identified that in 31 cases out of 138 the payback periods exceeded 18 months. The majority of those cases (22) were in relation to staff working on reduced hours.</p> <p>However, in 9 instances where the staff was employed full time we have not been able to obtain evidence of further approval of those. We would expect that any cases exceeding the parameters of the scheme are subject to further approval.</p> <p>The total cost of the VES compensations was £6.2m of which £0.5m represents the part of the packages that exceeded the 18 month target.</p> <p><b>There is a risk that RoS did not comply with the terms agreed by the Scottish Government and not ensured that value for money was secured.</b></p>	<p>This suggests that it cannot be the intention that no one individual is allowed to have payback longer than 18 months because this would discriminate against part time workers – typically working mothers.</p> <p>The scheme when initially launched had the 18 month cap, however following successful union challenge this changed to the previous scheme of 21 months.</p> <p>Our HR team are having ongoing correspondence with the SG team and Cabinet Office about the interpretation of the rules. Previous schemes have been run by Cabinet Office and the interpretation has been the payback relates to overall scheme and the individuals 21 month cap relates to compensation only - top-up or part time service can take this over 21 months. RoS has operated this scheme within this interpretation.</p> <p>We will be providing SG with a return detailing how the scheme was implemented once the correspondence is complete and will provide Audit Scotland with full details of all of this.</p>	

## Key Controls

<p><b>Supplier bank details changes</b></p> <p>In one of two instances of bank details changes requests there was no evidence confirming that the request was independently confirmed with the supplier.</p> <p><b>There is a risk of fraudulent requests for bank changes being requested.</b></p>	<p>The current desk notes state the need to independently verify and all staff have also had the appropriate fraud guidance from our bank. However, the current spreadsheet noting updates to suppliers does not have a column for noting that the independent check has taken place so this will be added.</p>	<p>Stephen Welham 25 May 2018</p>
<p><b>Payroll &amp; HR controls</b></p> <p>We identified that a number of payroll &amp; HR controls processes are not appropriately evidenced. Specifically:</p> <ul style="list-style-type: none"> <li>• there was number of signatures missing in the new starters forms (6 out of 10) to confirm the checks performed</li> <li>• two exception reports we reviewed were not signed and dated on completion</li> <li>• a process of setting up new</li> </ul>	<p>We will make sure that the forms and reports used and investigated are evidenced as such. Next year we plan to digitise a lot of paper based process and we will work with Audit Scotland to ensure the requirements of the internal controls are met.</p>	<p>Niall Henry 25 May 2018</p>

Issue identified	Management response	Responsible officer and target date
<p>users exists, but in the two cases we reviewed there was no audit trail to demonstrate who authorised/ requested a new user.</p> <p><b>There is a risk that invalid new starts or users are set up on the payroll system.</b></p>		
<p><b>Duplicate payments reporting</b></p> <p>The National Fraud Initiative exercise and use of PECOS provide mitigating controls in relation to duplicate payments for the majority of transactions. However, currently the transactions outside PECOS are not investigated for instances of duplicate payments.</p> <p><b>There is a risk that duplicate payments are made.</b></p>	<p>We consider our processes using the invoice register further mitigate against duplicate payment, but we will look into setting up a report which would identify any duplicate payments.</p>	<p>Stephen Welham 25 May 2018</p>
<p><b>Substantive testing</b></p>		
<p><b>Expenditure capitalisation</b></p> <p>Out of our sample of £3.3m we queried two transactions totalling to £0.9m to confirm whether these are of revenue or capital nature. The narrative used on some items on those invoices suggested that these were capital expenditure, rather than revenue. As a result, the finance staff confirmed that £445k of these invoices related to the IT capital expenditure and that this will be now adjusted in the ledger.</p> <p><b>There is a risk that expenditure is not classified correctly in the accounts.</b></p>	<p>The process around these errors has been reviewed and the team reminded of the necessary checks. Additional checking at the HEO stage has been introduced for transactions which are likely to have a capital element.</p>	<p>Stephen Welham 25 May 2018</p>
<p>Source: Audit Scotland</p>		

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

# Registers of Scotland

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