

Registers of Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Registers of Scotland and the Auditor General for Scotland

27 July 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.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2017/18 annual report and accounts	7
Part 2 Financial management	11
Part 3 Financial sustainability	13
Part 4 Governance and transparency	15
Part 5 Value for money	19
Appendix 1 Action plan 2017/18	23
Appendix 2 Significant audit risks identified during planning	28
Appendix 3 Summary of national performance reports 2017/18	31

Key messages

2017/18 annual report and accounts

- 1 The financial statements of Registers of Scotland for 2017/18 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- 2 Expenditure and income were in accordance with applicable enactments and guidance.
- 3 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Financial management

- 4 RoS had effective overall management of the 2017/18 budget.
- 5 Systems of internal control operated effectively in 2017/18 with scope for improvements in some areas.

Financial sustainability

- 6 RoS has adequate financial planning arrangements in place consistent with the projections in its Corporate Plan.

Governance and transparency

- 7 RoS has effective governance, decision making and scrutiny arrangements in place which provide an appropriate framework for organisational decision making.
- 8 RoS could take further steps to increase the openness and transparency of its operations and governance.
- 9 RoS is pro-active in cyber-resilience area which is important in the context of the digitalisation and business transformation.
- 10 The annual Governance Statement complies with the guidance.

Value for money

- 11 RoS has a well-developed performance management framework in place and sound benefits tracking tools.
- 12 RoS completed phase one of its business transformation programme and launched phase two with the workforce planning remaining a key challenge.

Introduction

1. This report summarises the findings from our 2017/18 audit of Registers of Scotland (RoS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 6 February 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the RoS' annual report and accounts
- consideration of the four audit dimensions that frame the wider scope of public audit 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 2017/18 have been:

- a review the RoS' main financial systems
- an audit of RoS' 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. Registers of Scotland has primary responsibility for managing, maintaining and controlling the Scottish public registers relating to land and other registers. RoS prepares annual report and accounts that are in accordance with the accounts

direction from the Scottish Ministers. The RoS' annual report and accounts includes the following:

- Performance Report
- Accountability Report (which includes the Corporate Governance Report, Remuneration and Staff Report and, Parliamentary and Accountability Report)
- Financial statements and supporting notes.

5. RoS is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the Board to successfully deliver its objectives.

6. Our responsibilities as independent auditor are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual report and accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. 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. This report raises matters from the audit of the annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £51,480 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to the Registers of Scotland by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the Board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both the Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. 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 2017/18 annual report and accounts



Main judgements

The financial statements of Registers of Scotland for 2017/18 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

Expenditure and income were in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2018 were approved by the Board on 21 August 2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual report and accounts for audit

16. We received the unaudited financial statements on 27 May 2018 which allowed us to start the audit in accordance with the agreed timetable.

17. The working papers provided with the unaudited financial statements were of a very good standard and finance staff made themselves available to answer the audit team's queries. This all helped ensure the final accounts audit process ran smoothly.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the

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

audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

20. We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£0.731 million
Performance materiality	£0.511 million
Reporting threshold	£0.035 million

Source: Annual Audit Plan 2017/18, Audit Scotland

How we evaluate 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.

22. We identified a number of small presentational and disclosure inconsistencies. We can confirm that management amended these in the financial statements.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management we have included a cross reference to the Action Plan in [Appendix 1](#).

24. These findings include our views about significant qualitative aspects of the RoS' accounting practices including:

- Accounting policies
- Accounting estimates and judgements
- Significant financial statements disclosures
- Timing of transactions and the period in which they are recorded
- The impact on the financial statements of any uncertainties
- The effect of any unusual transactions on the financial statements

- Misstatements in the annual report and accounts
- Disagreement over any accounting treatment or financial statements disclosure

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. HMRC contingent liability</p> <p>In June 2018, the head of finance informed us about a tax matter between RoS and HMRC in relation to a potential Construction Industry Scheme tax liability. A HMRC inspection in May 2018 concluded that RoS should have withheld 30% of the payments to one of the previous facilities management providers. HMRC have advised RoS of a resultant maximum liability of £2m.</p> <p>RoS has not accepted that it is liable and with the support of its tax advisers it challenges HMRC's position. RoS is proposing to disclose this matter in the annual report and accounts as an unquantified contingent liability.</p>	<p>We assessed the evidence and concluded that the financial statements should disclose an unquantified contingent liability.</p> <p>We recommend this is liability to ongoing review by RoS.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Non-current assets impairment review</p> <p>There is no formal non-current assets impairment review in place. Impairments are currently identified in an informal and ad hoc manner. With the material value of the non-current assets and the level of annual spend on creating new assets RoS should formalise the annual impairment reviews.</p>	<p>We recommend that RoS should perform a formal annual impairment review. Management to put such arrangements in place.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>
<p>3. Prior year end figures restatement</p> <p>The draft financial statements submitted for audit had prior year figures re-stated in two areas: income and non-current assets. These adjustments had a material impact on the notes to the accounts, but the net effect on the core financial statements was nil. We examined the relevant evidence and requested additional disclosures in relation to the adjustments.</p>	<p>Management agreed to put additional disclosures in the financial statements. We audited the adjustments and are satisfied these were supported by evidence.</p>

Source: Audit Scotland

Other issues

25. In our interim report presented to the Audit and Risk Committee on 3 May 2018 we reported our findings in relation to voluntary exit scheme. We had highlighted instances where the payback periods exceeded beyond the initial scheme target. During the financial statements audit we confirmed that the RoS has received a confirmation from the Scottish Government allowing longer payback periods.

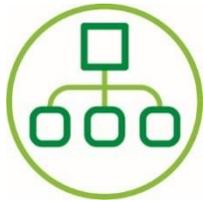
Follow up of prior year recommendations

26. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

27. Four agreed actions were raised in 2016/17. Of these three have been fully implemented and one is subject to ongoing review by RoS.

Part 2

Financial management



Main judgements

RoS had effective overall management of the 2017/18 budget.

Systems of internal control operated effectively in 2017/18 with scope for improvements in some areas.

Financial performance in 2017/18

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. The RoS' financial performance against budget is shown in [Exhibit 4](#).

Exhibit 4

Performance against budget in 2017/18

Performance	Final budget £m	Actual outturn £m	Difference from budget £m
Statutory income	69.1	63.4	(5.7)
Non statutory income	8.8	9.4	0.6
Total Income	77.9	72.8	(5.1)
Salary costs	53.1	58.0	(4.9)
Non salary costs	40.9	31.1	9.8
Total Expenditure	94.0	89.1	4.9
Profit/(Loss)	(16.1)	(16.3)	(0.2)

Source: RoS' performance and financial management report (May 2018)

31. RoS made a loss of £16.1m in line with its budget revised by the executive management team on 9 November 2017. Within that there have been some significant variances both in income and expenditure. 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. Salary cost added to that variance and its increase was caused by impact of IR35 requirements and competitive market for IT skills meaning that RoS had to pay more than it budgeted for in order to recruit the skills it needed to support its transformation strategy.

33. We are satisfied that RoS effectively managed its finances in 2017/18.

Budgetary processes

34. We reviewed RoS' budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at the Audit and Risk Committee we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

35. We concluded that RoS has effective budgetary monitoring and control arrangements that allow Board members and management to carry out proper scrutiny of its finances.

Systems of internal control

36. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce 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.

37. Our findings were included in the management report presented to the Audit and Risk Committee on 3 May 2018. We concluded that the controls tested were operating effectively except for the following areas: suppliers bank changes, duplicate payment reports and minor payroll controls. None of these was significant enough to affect RoS' ability to effectively record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

38. We adjusted our substantive testing accordingly for the above controls findings and have not identified further issues in those areas.

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

Part 3

Financial sustainability



Main judgements

RoS has adequate financial planning arrangements in place consistent with the projections in its Corporate Plan.

2017/18 financial position

39. The Statement of Financial Position summarises what is owned and owed by Registers of Scotland. 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 physical assets.

40. The 2017/18 financial statements show that RoS:

- has made a loss of £15.3 million
- has net assets of £75.1 million – a decrease of £15.5 million largely attributable to decrease of cash levels and accounting for approved voluntary exit scheme payments.

Financial planning

41. 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 2018 to 2021.

42. RoS is forecasting an operating loss of £3.7 million in 2018/19. 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 £3.5 million and £4.1 million in 2019/20 and 2020/21 respectively.

43. 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 2018 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.

44. Based on current corporate plan forecasts, reserves are expected to decrease from £85 million in 2019 to around £82 million by 2021.

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.

45. 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.

Medium to long-term financial planning

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

47. Registers of Scotland produced a 5 year long financial forecast running up to 2022/23. The forecast details income, expenditure and staff projections. The estimates extend beyond the current corporate plan period and assume different scenarios between 2019/20 and 2022/23.

48. Important part of the RoS strategy is its staffing structure and workforce planning. Due to the extent of the transformation programme and its impact on the way RoS is performing its main activities this is a key element of effective planning. We comment on the workforce planning and its financial impact in paragraphs 86 to 92.

Part 4

Governance and transparency



Main judgements

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

RoS could take further steps to increase the openness and transparency of its operations and governance.

RoS is pro-active in cyber-resilience area which is important in the context of the digitalisation and business transformation.

The annual Governance Statement complies with the guidance.

Governance arrangements

49. 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 and Risk Committee which is a non-executive committee of the Board.

50. 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.

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

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.

Transparency

52. Transparency means that the public have access to understandable, relevant and timely information about how the Board is taking decisions and how it is using resources such as money, people and assets.

53. There are increasing public expectations for more openness and transparency reflected in, for example, Scottish Parliament enquiries. Also, citizens want to understand how public money is used and to support their participation in local service design and delivery.

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

Recommendation 3

We welcome the fact that the Board reviewed its arrangements in this area last year. However, we think that there still further potential options for increasing openness and transparency at RoS:

the annual accountability review (where members of the public can attend)

Board meetings could be made open to the public

Audit and Risk Committee minutes and papers could be made public.

Risk management

55. 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 and Risk Committee meetings. The risk register is the result of an annual risk review workshop held with members of the Board and Audit and Risk 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.

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

Internal audit

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

58. PwC provided the internal audit function in 2017/18. 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.

59. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2017/18 we reviewed and considered the findings of the following internal audit reports:

- Payroll & Expenses
- Transformation Programme Benefit Review
- Key Performance Indicators
- Workforce Planning

60. In May 2018 RoS appointed Scottish Government Internal Audit Directorate (SGIAD) as the new internal audit provider. We will work with the SGIAD to provide efficient audit and added value through our activities.

Governance Statement

61. Under HM Treasury's Financial Reporting Manual (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.

62. 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 exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

63. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

National Fraud Initiative

64. 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 irregularity. NFI activity is summarised in [Exhibit 5](#).

Exhibit 5 NFI activity



304

Matches



79

Recommended
for investigation



96

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

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

66. There has been no fraud or irregularities identified as a result of NFI exercise at RoS.

Standards of conduct for prevention and detection of fraud and error

67. 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.

68. 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.

Cyber security

69. As a part of our audit we performed a high-level assessment of cyber-resilience arrangements at RoS. We covered three areas:

- does the RoS have structured approach to cyber security which guides its activity and expenditure
- how has management decided what risk it will tolerate and how does it manage that risk
- has the RoS identified and deployed the capability it needs?

70. We were satisfied with the arrangements in place at RoS. Management is currently refreshing RoS' Digital Strategy and our initial assessment is that this document is at appropriate level of detail and coverage. We acknowledge the different streams of work in relation to IT and work in progress to address awareness of the cyber security arrangements, especially amongst the agency and professional support staff working for RoS.

General Data Protection Regulation

71. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

72. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in RoS incurring significant fines.

73. Based on an assessment of the evidence and our attendance at Audit and Risk Committee meetings we conclude that RoS has sound arrangements for preparing to and implementing GDPR requirements.

Good practice

74. As mentioned in the paragraphs 69 and 70 above RoS has well-establish and structured approach to management of its cyber security.

Part 5

Value for money



Main judgements

RoS has a well-developed performance management framework in place and sound benefits tracking tools.

RoS completed business transformation programme phase one and launched phase two with the workforce planning remaining a key challenge.

Performance management

75. 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 2017/18.

76. The performance of RoS is monitored by the Board and Audit and Risk Committee against several performance targets which support the delivery of the strategic objectives, vision and goals. In May 2018 the internal audit presented a report on key performance indicators to RoS with the overall conclusion that controls are in place, but need more adequate documenting.

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

Performance overview

77. RoS uses nine main service standards to measure its performance for applications entering and processing times. On average 89% of cases were processed within the standards compared to 94% in 2016/17. The 2017/18 decline is visible in two areas: register land register applications for deeds affecting unregistered land and register applications for deeds affecting part of registered land. Management informed us that the lower performance in those two areas was due to the delays in realisation of the digitalisation benefits and transferring some of the most experience resources to the work on transformation programme.

78. RoS also maintains a financial target to make at least 5% profit on non-statutory services. In 2017/18 RoS exceeded that target and achieved 8% of income from those sources.

Land Register Completion

79. 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 2017/18 by working with large public and private sector bodies to promote voluntary registration of land. 65 per cent of land and property titles and 31.7 per cent of land mass in Scotland is now registered (it was 62 and 29.7 per cent in 2016/17 respectively).

80. 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.

Business Transformation Programme

81. 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.

82. RoS completed the first phase of the business transformation (BTP1) work in October 2017. The phase delivered:

- replacement, improvement and stabilising main IT systems
- launching new digital discharges channel and the new landlord register
- created business efficiencies.

83. The total cost of BTP1 was £24.2 million and was within 1% of the initial budget, with some increases to the programme scope included in the cost. RoS forecasts that the BTP1 will bring £32 million of payback by 2020/21, therefore bringing £7.2m of net benefits.

84. An early version of the business transformation programme 2 (BTP2) was presented to the Board in August and November 2017 focusing on implementing change and achieving transformation benefits. The programme has been extended to 2020 to make it line with the full digital 2020 vision and approved by the Board with the total estimated maximum budget of £30 million.

85. The full business case was re-approved by the Board in May 2018 with the following priorities:

- greatly accelerate the rate at which we complete the Land Register
- prove Hands Free transactions at a meaningful scale and
- support the arrears trending down.

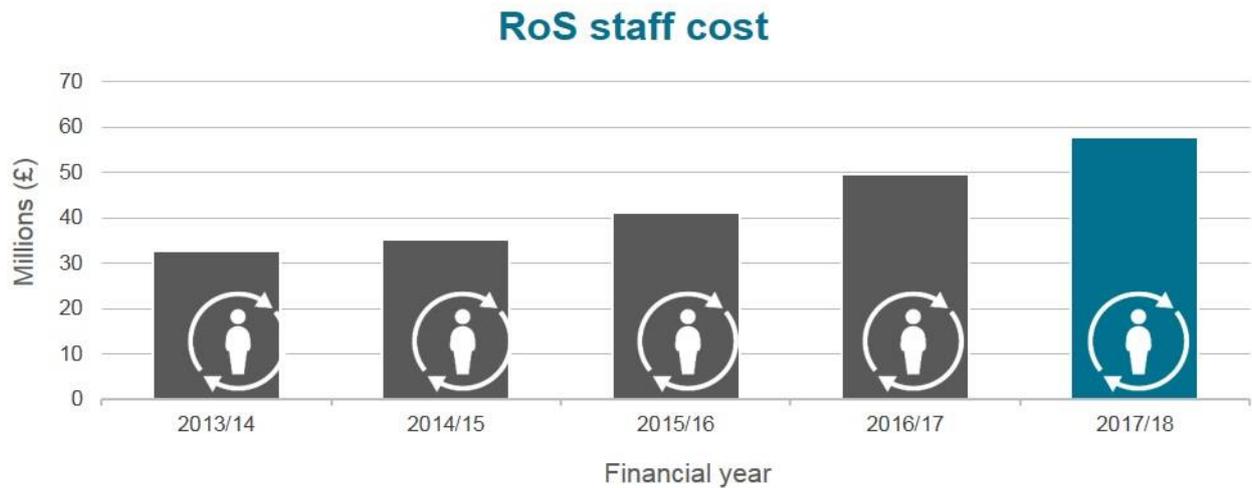
Workforce planning

86. Last year we reported that RoS has prepared a high-level summary of the impact of its business transformation programme on current and future staffing requirements. This outlined 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.

87. Early in 2017/18 it established a strategic workforce planning group (previously a staffing committee) and revised its terms of reference, so the group can oversee workforce planning activities on behalf of the executive management team.

88. In total the staff cost has risen from £32.7 million in 2013/14 to £57.9million in 2017/18 as demonstrated by the Exhibit 6 below.

Exhibit 6



Source: RoS annual accounts 2013/14– 2017/18 (excludes voluntary exit scheme cost)

89. RoS prepared staff cost projections for the next five years and expects that the cost will go down in the next years and be around £32 million in 2022/23.

90. One of the key steps of the planning was launching of the voluntary exit scheme. 136 staff members decided to leave RoS through the scheme with the total cost of £6.1 million. The number of leavers represents 14% of permanent staff members. Registers of Scotland is planning to continue with this scheme into 2018/19.

91. Workforce planning is the key area of RoS activity that, if managed properly, will help with the delivery of the business transformation objectives and help land register completion. With the number of staff leaving and the pace of change in the organisation this is an area of potential high risk.

92. In May 2018 internal audit (PwC) presented a detailed report on the workforce planning. The report highlighted the importance of this area and need of developing head count reduction strategy/plan and skills inventory. At the same time the Board was considering strategic workforce planning approach and taking into consideration PwC's recommendations with clearly identified outputs:

- an audit of skills within the existing workforce
- create scenarios and assumptions for future operating state
- identify future skills required to meet new operating model
- develop action plans to fill skills gaps and develop existing resource
- develop a framework for options to redeploy staff.

Recommendation 4

RoS should continue to manage the business transformation programme and resource and finance implications of meeting the 2024 target for land register completion.

National performance audit reports

93. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which could be of interest to the RoS. These are outlined in [Appendix 3](#).

94. Audit and Risk Committee periodically considers relevant Audit Scotland reports.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>HMRC contingent liability</p> <p>RoS is in dispute of over a potential tax liability in relation to Construction Industry Scheme. HMRC inspection that RoS should have withheld 30% (£2m) of the payments to one of the past facilities management providers. RoS has challenged the existence of the liability and is in process of negotiations with HMRC.</p> <p>Risk</p> <p>There is a risk that the liability is classified and disclosed incorrectly.</p>	<p>RoS should re-assess the liability as the negotiations with HMRC develop.</p> <p>Paragraph 24</p>	<p>RoS has engaged with Scott Moncrieff to act on its behalf in discussions with HMRC. Our opening position is we do not accept that we are liable for CIS. We will continue to keep Audit Scotland informed of progress and reassess the liability in the ARA if the position changes prior to signing.</p> <p>Stephen Welham</p> <p>21 August 2018</p>
2	<p>Impairment review</p> <p>There is no formal non-current assets impairment review in place. These are currently performed in informal way.</p> <p>Risk</p> <p>There is a risk that statement of financial position is overstated.</p>	<p>With the material value of the non-current assets and the level of annual spend on creating new assets RoS should formalise the annual impairment reviews.</p> <p>Paragraph 24</p>	<p>A formal annual review will be set up by head of finance with sign off from appropriate business areas</p> <p>Stephen Welham</p> <p>End December 2018</p>
3	<p>Workforce planning</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>We recommend that RoS remains pro-active about its workforce planning and aligns it with financial and delivery planning for BTP2 and LRC.</p> <p>Paragraphs 79-92</p>	<p>Strategic workforce planning project set up to deliver a toolkit, framework and approach. Progress paper going to August board and main deliverables in place by December 2018.</p> <p>Janet Egdell</p> <p>End December 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>In 2017/18 RoS moved to a second phase of BTP. At the same time RoS was undergoing some key senior staff changes and launched voluntary exit scheme with 14% of its permanent workforce taking opportunity to leave RoS employment.</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 programmes to ensure delivery on time and within budget.</p> <p>Risk</p> <p>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.</p>		
4	<p>Openness and transparency</p> <p>There still further potential options for increasing openness and transparency at RoS:</p> <ul style="list-style-type: none"> • the annual accountability review (where members of the public can attend) • Board meetings could be made open to the public • Audit and Risk Committee minutes and papers could be made public. <p>Risk</p> <p>There is a risk that RoS does not meet increased expectations of public scrutiny.</p>	<p>With the expectations for enhanced openness in the conduct of public business RoS should consider increasing these further.</p> <p>Paragraph 54</p>	<p>This was reviewed by the Board in 2017, and it was agreed to continue with the current arrangements. We will review again at the forthcoming Audit and Risk Committee meeting and RoS Board meeting during August.</p> <p>Janet Egdell</p> <p>End August 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
Follow up of prior year recommendations			
b/f	<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>Action completed as confirmed by 2017/18 audit</p>
b/f	<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 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</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>Action completed as confirmed by 2017/18 audit.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>the importance of maintaining their registers of interest on an ongoing basis.</p> <p>Risk</p> <p>RoS cannot demonstrate the probity of key organisational decisions.</p>		
b/f	<p>3. Accuracy of asset register</p> <p>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.</p> <p>Risk</p> <p>Capital is incorrectly accounted for in future financial statements.</p>	<p>RoS should review its fixed asset register and take corrective action to ensure individual asset values are accurately recorded.</p>	<p>Action completed as confirmed by 2017/18 audit.</p>
b/f	<p>4. Land register completion</p> <p>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. The target for land register completion remains challenging to achieve and will continue to have a significant impact on RoS' financial and workforce planning.</p>	<p>RoS should continue to manage the resource implications of meeting the 2024 target for land register completion.</p>	<p>We examined Board, Audit and Risk Committee papers, financial statements.</p> <p>We discussed these matters with management and included this point in 2017/18 issues above.</p>



No. **Issue/risk****Recommendation****Agreed management
action/timing**

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.

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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>We concluded from our audit testing that all 2017/18 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 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 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>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>We confirmed through audit testing that revenue had been recognised appropriately in the financial statements.</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</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</p>	<p>We concluded that appropriate valuation and estimation techniques have been used and have not identified any issues.</p>

Audit Risk	Assurance procedure	Results and conclusions
number of the estimation areas and their subjectivity represents an increased risk of misstatement in the financial statements.	resource will be put to this to quality assure the output.	

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

<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 programmes to ensure delivery on time and within budget.</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>We confirmed that RoS has made progress in delivering both programmes but further work is needed to meet the target dates for completion.</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</p>	<p>Development of a long term financial strategy with key input from accountable officer and chair of audit and risk committee.</p>	<p>We reviewed and assessed a number of arrangements around reserves strategy, detailed financial planning for workforce and BTP2 business cases.</p> <p>We raised an action point in relation to workforce planning which is strongly linked to financial sustainability.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>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>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 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 performed a more detailed review of the cyber-security arrangements and concluded these are robust and comprehensive.</p>
<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 confirmed that the registers of interest published were up to date.</p>

Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Common Agricultural Policy Futures programme: further update](#) – June 2017

[Transport Scotland's ferry services](#) – October 2017

[Early learning and childcare](#) – February 2018

[Managing the implementation of the Scotland Acts](#) – March 2018

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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