

## Key Issues Memorandum

The General Register Office for Scotland

For the year ended 31 March 2009

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We intend to give an unqualified opinion on both the financial statements of GROS for 2008/09 and on the regularity of transactions undertaken during the year

# 1 Executive summary

The purpose of this memorandum is to highlight the key issues emerging from our 2008/09 audit. It is also used to report to management on compliance with the Code of Audit Practice and the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

<b>Financial statements</b>	
Annual Accounts	<ul style="list-style-type: none"> <li>We intend to give an unqualified opinion on GROS's 2008/09 accounts and on the regularity of transactions during the year. GROS has good arrangements in place for preparing its annual accounts.</li> </ul>
Asset revaluation	<ul style="list-style-type: none"> <li>The impact of the economic downturn on property prices resulted in a £785k downward revaluation of New Register House during the year.</li> </ul>
ScotlandsPeople Centre	<ul style="list-style-type: none"> <li>The ScotlandsPeople Centre opened in January 2009 and has proven popular. Our audit identified scope to improve internal budgeting and financial reporting arrangements for the Centre.</li> </ul>
Revaluation reserve	<ul style="list-style-type: none"> <li>An accounting error of £156k was corrected through the revaluation reserve.</li> </ul>
<b>Governance</b>	
Overall Governance	<ul style="list-style-type: none"> <li>GROS has well developed governance arrangements in place.</li> </ul>
Audit Committee arrangements	<ul style="list-style-type: none"> <li>Audit Committee arrangements comply with Scottish Government good practice guidelines.</li> </ul>
Census - contract management	<ul style="list-style-type: none"> <li>GROS is progressing well with the Census Project and has good contract management arrangements in place.</li> </ul>

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<b>Performance</b>	
Best Value	<ul style="list-style-type: none"><li>• GROS has not assessed its performance against Best Value criteria for some time and a further review is now required.</li></ul>
Efficient government	<ul style="list-style-type: none"><li>• GROS exceeded its efficiency targets for the year.</li></ul>
Operational performance indicators	<ul style="list-style-type: none"><li>• GROS achieved the majority of its key business objectives for the year. GROS's performance indicators are largely input focussed and there is scope to develop performance targets around output, outcome and impact measures.</li></ul>

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

**Grant Thornton UK LLP**  
**14 August 2009**

The revaluation of New Register House was the key audit issue this year

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## 2 Financial statements

### 2.1 Our responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the General Register Office for Scotland as at 31 March 2009 and of the net expenditure, recognised gains and losses and cash flows for the year then ended
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Government guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

### 2.2 Annual Accounts 2008/09

GROS has good arrangements in place for preparing its annual accounts. We are able to conclude that the financial statements give a true and fair view of the financial position for the period from 1 April 2008 to 31 March 2009 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

### 2.3 Audit issues

Our audit identified a number of issues impacting on the draft financial statements and our findings are set out in the following table:

	<b>Issue</b>	<b>Commentary</b>
1	<p><b>Revaluation of New Register House</b> Capital expenditure totalling £1,588k in respect of New Register House (NRH) was transferred from assets under construction to buildings/equipment following the opening of the ScotlandsPeople Centre in January 2009.</p> <p>NRH was last fully valued at 31 March 2008. However, due to current market conditions and the high value of capital expenditure recognised in the year, a new valuation was required to ensure the accounts fully reflect the value of the asset. The result has been a downward valuation in NRH of £785k which has been deducted from the Revaluation Reserve.</p>	<p>The 2008/09 Financial Reporting Manual (FReM) states that write down in costs in relation to enhancement expenditure should be treated as an impairment and taken to the income statement. For assets held at valuation, only those losses resulting from a loss of economic value or service potential, such as movements in the property market, should be taken to reserves.</p> <p>We have audited the calculation of the revaluation adjustment and concluded that the adjustment is correctly calculated and appropriately reported through the Revaluation Reserve.</p>
2	<p><b>International Financial Reporting Standards (IFRS)</b> Central government bodies are required to prepare their accounts on the basis of IFRS from 2009/2010. In readiness for this, GROS is required to:</p> <ul style="list-style-type: none"> <li>• prepare an opening 2008 IFRS-based balance sheet</li> <li>• produce shadow IFRS accounts for 2008/09 by 30 September 2009.</li> </ul> <p>The transition to IFRS may be complex, with significantly enhanced disclosures and changes in accounting policy that may have material effects on the results and on budgeting.</p>	<p>GROS submitted its 2008 restated balance sheet for audit in line with Scottish Government guidelines and we reported our audit findings in March 2009. We concluded that GROS is well prepared to produce shadow IFRS accounts by end September in line with the Scottish Government's timetable, but must maintain momentum over the coming months. We currently plan to audit the 2008/09 shadow IFRS accounts during November 2009.</p>
3	<p><b>Financial Instruments</b> The 2008/09 FReM requires compliance with standards FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurement, Recognition and Derecognition, and FRS 29 Financial Instruments: Disclosures.</p> <p>The draft financial statements did not contain disclosure on these matters.</p>	<p>The FReM guidance states that given that all departments have financial instruments within the scope of FRS 25, disclosure is required. Management have now updated Note 20 of the financial statements to comply with FReM disclosure requirements.</p>



	<b>Issue</b>	<b>Commentary</b>
4	<p><b>Debtors</b></p> <p>There was insufficient disclosure of debtor balances in the draft financial statements. The 2008/09 FReM requires a detailed analysis of the major components of debtors and identification of those due after more than one year.</p>	<p>The revised financial statements now include an analysis of debtors as required by the 2008/09 FReM.</p>
5	<p><b>Provisions for Liabilities and Charges</b></p> <p>GROS have recognised a provision of £215k (2008: £nil) in respect of future early retirement costs for employees who left in 2008/09. The arrangements for paying early retirement costs changed during the year and GROS now pay pensions costs directly. Previously, GROS paid the whole of the future cost to Scottish Government in the year of retirement and Scottish Government bore the cost of the pension annually until normal date of retirement.</p> <p>Under the 2008/09 FReM and Financial Reporting Standard 12, there is a requirement to provide a brief explanation of the nature of the obligation and the expected timing of any resulting transfers of economic benefits.</p>	<p>Note 12 of the financial statements has been updated to provide additional disclosure explaining why this provision came onto the balance sheet of GROS in 2008/09.</p>
6	<p><b>Remuneration Report</b></p> <p>GROS is required to disclose the salaries of senior management within specified range bands. Our audit identified a correction was required to the disclosed bands.</p>	<p>The Remuneration Report has been updated to adjust the salary bands for reporting senior management salaries to ensure compliance with the 2008/09 FReM.</p>
7	<p><b>Revaluation reserve movement</b></p> <p>The element of the annual depreciation charge that is required to be charged to the revaluation reserve, amounting to £78k, had been posted the wrong way round in the draft financial statements, overstating the revaluation reserve by £156k and understating the general fund by £156k.</p>	<p>Note 13 of the financial statements has been updated to correct this error.</p>

## 2.4 Audit adjustments

Adjustments that were identified during the course of the audit and subsequently processed include:

- depreciation processed through the revaluation reserve
- a proportion of the assets under construction reallocated from buildings to equipment
- the revaluation of New Register House
- adjustment to cost of capital charge arising from the previous adjustment.

All processed adjustments are set out below.

## 2.6 Processed adjustments

## 2.5 Unadjusted items

There were no unadjusted items to report.

	Balance Sheet		Operating Cost Statement	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Adjustments affecting reported results</b>				
Correction for reversed double entry relating to excess depreciation on revalued assets	Revaluation reserve 156	General fund 156		
Reallocation of asset under construction	Tangible assets - equipment 76	Tangible assets - buildings 76		
Revaluation of New Register House	Revaluation reserve 785	Tangible assets 785		
Adjustment to cost of capital charge	General fund 12			Cost of capital 12

GROS has generally good governance arrangements in place

### 3 Governance

#### 3.1 Our role

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

As part of our 2008/09 audit, we assessed the adequacy of GROS’s governance arrangements against good practice standards for the public sector.

We examined:

- governance arrangements for the ScotlandsPeople Centre
- the operation and effectiveness of key controls over financial systems
- the contract management arrangements adopted by GROS for the Census project.

	<b>Issue</b>	<b>Auditor response and conclusion</b>
1	<p><b>ScotlandsPeople Centre</b> Our interim audit identified some weaknesses in the governance, budgeting, financial reporting and monitoring arrangements in connection with the new ScotlandsPeople Centre (SPC).</p> <p>We note that there has been an improvement in the quality of management information for SPC since our interim audit, and management have plans in place to ensure remaining information gaps are addressed.</p>	<p>There is a risk that GROS could under-estimate costs or over-estimate income for SPC in the absence of relevant and timely management information.</p> <p>Management have advised that they will be working on this in the next few months with a priority being the setting up of memorandum trading accounts for this cost centre.</p> <p>We will follow up progress in addressing this issue as part of our 2009/2010 audit.</p>

	<b>Issue</b>	<b>Auditor response and conclusion</b>
2	<p><b>Scottish Public Finance Manual (SPFM)</b> GROS is required to operate in accordance with the SPFM.</p>	<p>We found that GROS has good governance arrangements in place and operates in accordance with the SPFM.</p>
3	<p><b>Audit Committee arrangements</b> In 2008 the Scottish Government published a new handbook for the operation of audit committees in the public sector.</p>	<p>GROS completed a self-assessment checklist during the year which confirms that it complies with all key requirements of the Audit Committee Handbook. Action has been taken to address gaps in audit committee arrangements where identified including, for example, the completion of an annual report by the Committee.</p>
4	<p><b>Census - contract management</b> GROS is responsible for delivering the 2011 Census, a key business objective and a major exercise for which preparation is already underway. GROS must ensure that it contracts effectively with key suppliers to deliver the project on budget, on time and to quality standards. A Census rehearsal is currently in progress with the first stage of collecting the selected sample of Census returns completed. The next stage will be the statistical analysis of the data provided.</p>	<p>We concluded that GROS has effective contract management and monitoring arrangements in place. GROS is continuing to plan and monitor the Census project effectively. Gateway reviews to date have all been positive. However, as GROS enters the next stage in the process, it is critical that good management is maintained.</p>
5	<p><b>NHS Central Register</b> GROS has a statutory duty to maintain the NHS Central Register and has a financial objective to break-even on the provision of this service. However, GROS has reported an operating loss for this service in each of the last two years (£58k loss in 2008/09 and £259k loss in 2007/08).</p>	<p>GROS should ensure that levels of contract income are sufficient to cover the costs of providing this service. Management have advised that a full review of the service will be undertaken during 2009/10.</p> <p>We will follow up progress in addressing this issue as part of our 2009/2010 audit.</p>




### 3.2 Accounting systems and internal control

We have applied our risk methodology to your audit. This approach allows us to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. See 'The small print' for further details of our approach.

Financial Control issues were reviewed during our interim audit procedures, and findings highlighted to you in our interim reports, dated 16 March 2009.

Further observations noted during our final audit regarding your internal controls are detailed in the table below.

#### Key to assessment of internal control deficiencies

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- |   |   |
|---|---|
|  | Material weakness - risk of material misstatement         |
|  | Significant deficiency - risk of significant misstatement |
|  | Deficiency - risk of inconsequential misstatement         |
-

	Assessment	Issue and risk	Recommendation
1	●	<p><b>ScotlandsPeople Centre</b> Management have sufficient information to satisfy basic budgeting requirements with regard to the ScotlandsPeople Centre. However, information is not currently available to determine the net contribution to the Centre. There is a significant risk that net costs could exceed expectations.</p> <p>There is a draft 'memorandum of understanding' in place between GROS, the National Archives for Scotland and the Court of the Lord Lyon for the operation of the Centre. However, the memorandum has never been formalised and there is a risk that agreements with regard to operation of the Centre, and sharing of costs and income, could change over time.</p>	<p>It is essential that management receive the necessary information to support effective financial management of the Centre.</p> <p>We understand that GROS plan to review the operation of the Centre over the summer of 2009 with the intention of re-casting the memorandum trading accounts and improving the information provided to it by SPC.</p> <p>We will undertake a further review of GROS's progress in this area as part of our 2009/10 audit.</p>
2	●	<p><b>Impairment reviews</b> GROS can have significant annual capital spend and has a large existing asset base. Impairments could have a significant effect on the outturn for the year.</p>	<p>Formal annual reviews of valuation/impairment should be carried out. We recommend that this is incorporated into the annual plan.</p>
3	●	<p><b>Creditors</b> There was some difficulty during the audit in obtaining supporting documentation for creditors.</p>	<p>It would aid our audit next year if full supporting documentation and breakdown of creditor balances was made available in advance of our 2009/10 audit.</p>
4	●	<p><b>Fraud and Irregularity</b> There is currently no requirement for new staff to confirm that they have read and understood the Civil Service Code of Conduct, Standards of Propriety, Gifts and Hospitality, and whistle-blowing guidance on the SG intranet. There is a risk that staff may claim to be unaware of these policies when caught in wrong doing, or that Fraud will not be reported if staff are unaware of the whistle-blowing policy.</p> <p>Senior management are unable to access reports on employees such as absence rates and a Register of Interests. This makes it more difficult to manage HR issues efficiently.</p>	<p>A paragraph could be added to the new joiners pack, highlighting where to find the relevant guidance on the SG intranet, and the requirement to read the Fraud polices could be added to the Induction checklist.</p> <p>The Scottish Government's HR resource need to improve communication with and feedback to GROS.</p>

GROS exceeded its efficiency savings target for the year



## 4 Performance

### 4.1 Our role

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money arrangements. As part of our annual audit we review aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The Accountable Officer has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure best value in the use of resources. GROS is now also expected to achieve 2% efficiency savings annually. We review progress against performance targets, and plans to improve organisational performance.

	<b>Issue</b>	<b>Auditor response and conclusion</b>
1	<p><b>Best Value</b></p> <p>The Accountable Officer has a duty to ensure public resources are used economically, efficiently and effectively. Since April 2002 there has also been a duty on Accountable Officers "to ensure arrangements are in place to secure Best Value".</p>	<p>GROS has not updated its assessment of Best Value for several years and should now refresh its assessment of performance against the nine indicators of Best Value set by the Scottish Government.</p> <p>Management have advised that they will carry out a further Best Value review by the end of August 2009.</p>
2	<p><b>Efficient Government</b></p> <p>GROS is expected to contribute 2% efficiency savings annually to meet Ministerial targets requiring an annual saving of £141k per annum in 2008/09, increasing to £167k by 2010/ 11.</p>	<p>GROS exceeded its targets for 2008/09, achieving savings of £255k for the year and has identified efficiency savings for 2009/10 onwards.</p>

	<b>Issue</b>	<b>Auditor response and conclusion</b>
3	<p><b>Operational performance indicators</b></p> <p>The management board sets strategic objectives for the next 3 to 5 years in the corporate plan and each division sets two types of objectives for the coming year - key objectives and key performance indicators.</p> <p>The draft 2008/09 Annual Performance Plan concludes that of 52 Key Business Objectives, only 1 has not been achieved, 7 only partly achieved and 5 mostly achieved. The objective not achieved was in relation to IT and was due to a delay in re-establishing GSI accreditation.</p> <p>A review of the draft Annual Performance Plan shows that, of the 37 key performance indicators, 10 were not achieved, 4 significantly:</p> <ul style="list-style-type: none"> <li>• response to change of name within 10 working days Target: 95%, Actual: 55%</li> <li>• internet extract orders (internet unit) issued within 15 working days Target: 95%, Actual: 57%</li> <li>• payment of invoices within 10 days Target: 100%, Actual: 69%</li> <li>• freedom of information requests response within 20 working days Target: 100%, Actual: 77%</li> </ul>	<p>GROS has achieved most of its targets and has provided explanations in its Annual Performance Review for those that were not achieved. We are satisfied that there is a clear link between strategic objectives, key business objectives and key performance indicators, that divisional heads are actively involved in monitoring and reporting performance, and that high risk areas are reported to management via the risk register.</p> <p>Overall we have concluded that GROS's performance management arrangements are adequate. We note, however, that GROS's performance indicators tend to be input focussed and there is scope for further development of outcome, output and impact performance measures.</p>

'The small print' sets out the basis on which we have undertaken your audit.

## 5 The small print

### Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Accountable Officer of GROS and management.

The purpose of this memorandum is to highlight the key issues affecting the results of the GROS and the preparation of the financial statements for the **year ended 31 March 2009**.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of GROS.

This memorandum has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to GROS arising under the Code of Audit Practice.

### Responsibilities of management and auditors

Management are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that management confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

GROS management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the that it has done so.

The Accountable Officer is required to review GROS's internal financial controls. In addition, the Accountable Officer is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Accountable Officer should receive reports from management as to the effectiveness of the systems that have been established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

### Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£ incl VAT
Audit	50,000

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected