

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF  
THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

**THE 2010/11 AUDIT OF REGISTERS OF SCOTLAND**

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1. I have received the audited accounts of the Registers of Scotland (RoS) for the year ended 31<sup>st</sup> March 2011. The auditor has given an unqualified audit opinion on the accounts. I have decided to issue this report to bring to the Parliament's attention a £3.1 million reduction in the value of Information Technology (IT) and software assets reflected in the accounts and to continuing uncertainty over other projects being delivered through a Strategic Partnership Agreement (SPA) with their IT provider.
2. I submit these accounts and the auditor's report in terms of section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.
3. The statement of the financial position of RoS on page 22 of the accounts shows that the value of its total non-current assets reduced by £7.14 million from £31.06 million at 31<sup>st</sup> March 2010 to £23.92 million at 31<sup>st</sup> March 2011. Note 19 on page 38 of the accounts explains how the reduction in value relates partly to impairment charges of £3.102 million because two IT projects progressed through the SPA were abandoned. An impairment charge is made where an event or change in circumstances reduces the value of an asset below the amount it would generate from its use or sale. Note 19 also refers to revenue expenditure of £2.2 million relating to a further constructive loss. A constructive loss can not be avoided, but occurs when a procurement action results in payment for an item that turns out to be of less use or value than when the procurement took place.
4. RoS entered into the SPA with British Telecom (BT) on 1 December 2004. The agreement was expected to deliver a range of information systems and services including ongoing IT provision and a number of programmes to update RoS' IT systems and applications. The initial contract cost of both the projects and services was estimated to be £66 million to the end of the partnership in 2014. RoS recognised, however, that costs would rise above the estimate to take account of inflation and additional projects and introduced a system of change control notices to approve changes and monitor costs.
5. By 30 April 2011 RoS had incurred costs of £102 million and the total estimated cost to the end of the partnership has risen to £132 million. RoS attribute overspend against the budget to factors such as programme changes which emerged after the original contract was agreed (£20 million), additional service charges as a result of contract changes (£5.4 million) and legacy costs (£9.2 million). The total value of change control notices approved in the period was £17.1 million. I will consider these factors in more detail in the wider audit of outsourced contracts noted in paragraph 10 below.
6. The Scottish Government undertook a Gateway Review of the SPA and reported in January 2011. The review concluded that the SPA fell into a category of projects where successful delivery of the project/programme appears to be unachievable.
7. The impairment charges in the accounts represent a loss of value in relation to two projects that the SPA was expected to deliver. RoS decided not to proceed with a system designed to process case registration (e-Settle) because tests showed that it did not achieve the required level of delivery and accuracy. A further project which was expected to provide a content management system (CMS) was completed but RoS found that revenue costs associated with the system would be approximately £1 million over

four years and decided to return to the previous system until a solution providing value for money can be implemented. The total cost of both projects was £6.8 million of which £3.1 million were capital costs and required to be impaired.

8. RoS has undertaken an impairment review of the remaining parts of the SPA. The review did not identify any further projects being delivered which should be written down in the 2010/11 accounts. The auditor has accepted the results of the impairment review but has identified that the future of some projects being developed under the SPA remains uncertain and has recommended that another specific project designed to provide automated registration of title to land is regularly reviewed to ensure RoS continue to value it at an appropriate level.
9. RoS management have undertaken a number of actions to learn lessons from the CMS and e-Settle projects and to manage the SPA going forward. These include:
  - post project reviews to learn lessons from abandonment.
  - staff training to ensure all relevant costs are included in business plans.
  - an annual review of ongoing capital projects to identify any asset impairments.
  - the preparation of exit and transition strategies for the end of the BT contract in 2014.
10. The impairment charge incurred by RoS is similar to changes in the value of software assets recorded by other public bodies in their accounts for 2010/11. I will produce reports to be laid with the accounts of each these bodies individually. I have also asked Audit Scotland to bring forward proposals in the current forward programme of performance audit studies to produce a wider report on outsourced contracts.



**Robert W Black**  
**Auditor General for Scotland**