

# Registers of Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Registers of Scotland

March 2022

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Registers of Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts of Registers of Scotland and the issue of an independent auditor's report setting out our audit opinions on the financial statements, regularity and other statutory information including the Performance Report, Governance Statement and Remuneration and Staff Report
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of Best Value arrangements and Registers of Scotland's participation in the National Fraud Initiative.

## Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

3. We aim to add value to Registers of Scotland by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Registers of Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Registers of Scotland

4. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Registers of Scotland. Key responsibilities are summarised below.

### Auditor responsibilities

5. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

6. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within Registers of Scotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

### Registers of Scotland responsibilities

7. Registers of Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

8. Registers of Scotland is also responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

### Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to the Covid-19 pandemic. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**10.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**11.** We assess materiality at different levels and the materiality values for Registers of Scotland are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for Registers of Scotland

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1 per cent of gross expenditure for the year ended 31 March 2022 based on the audited financial statements for 2020/21.	£964,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.	£627,000
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£45,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**12.** Our risk assessment draws on our cumulative knowledge of Registers of Scotland, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**13.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>Evaluate significant transactions outside the normal course of business.</li> <li>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>2. Estimation in the valuation of work in progress</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the work in progress calculation. In view of this complexity there is a risk that these are not appropriately disclosed or accounted for in the financial statements.</p>	<ul style="list-style-type: none"> <li>• RoS management is working on streamlining the process through better use and increased understanding of the model that underpins the calculations.</li> </ul>	<ul style="list-style-type: none"> <li>• Walkthrough of controls around the work-in-progress calculation and evaluation of the assumptions.</li> <li>• Examination of the accuracy, completeness and valuation of disclosures in the 2020/21 financial statements.</li> <li>• Detailed testing of related income and expenditure.</li> </ul>

Source: Audit Scotland

**14.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Registers of Scotland due to the extent of income received from the Scottish Government and the remaining fee income streams being fixed and prepaid.

**15.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Registers of Scotland as our assessment of the expenditure transaction streams has confirmed that many are low risk e.g. staff costs or supplies and services, including professional fees, and our standard audit procedures will involve focused testing on accruals in any higher risk areas. Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector per the National Fraud Initiative and this, as well as the analysis of expenditure, indicates that there is not a high risk of fraud across payment streams.

**16.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing is directed towards significant and unusual transactions and assessing accounting estimates to address any residual risk, as part of our standard fraud procedures.

## Other areas of audit focus

**17.** As part of our assessment of audit risks, we have identified the valuation and measurement of non-current assets as an area where we consider there are also risks of material misstatement to the financial statements. The fair value of all land and buildings is assessed by obtaining regular valuations of the property portfolio, from a professional valuer engaged by Registers of Scotland. There is a risk of misstatement due to the high degree of subjectivity and estimation used in the calculation, however based on our assessment of the likelihood and magnitude, we do not consider this to represent a significant risk.

**18.** We will keep this under review as our audit progresses. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

## Audit risk assessment process

**19.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

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# Audit dimensions and Best Value

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## Audit dimensions

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

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### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

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21. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Duty of Best Value

**22.** [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Registers of Scotland.

**23.** Additionally, as part our Best Value work, we will consider the work carried out by internal audit on Registers of Scotland’s arrangements in relation to the Best Value characteristic “fairness and equality”

## Audit dimension risks

**24.** We have identified audit risks in the area set out in [Exhibit 4](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance.

### Exhibit 4

#### 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p><b>1. Completion of Land Register by 2024</b></p> <p>The Covid-19 pandemic has adversely impacted on progress in achieving this strategic objective. Registers of Scotland are aware of the challenge ahead due to complex nature of the work and the number of cases involved and are engaging with key stakeholders.</p>	<ul style="list-style-type: none"> <li>• Assurance through reporting includes:                             <ol style="list-style-type: none"> <li>1. Accountable Officer oversight (including as chair of LRC steering group)</li> <li>2. EMT oversight</li> <li>3. Board oversight</li> <li>4. Certificates of Assurance and Internal Control Checklists (ICC)</li> </ol> </li> <li>• External assurance includes:                             <ol style="list-style-type: none"> <li>1. Scottish Ministers oversight</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• Regular discussions with management, including progress of engagement with key stakeholders.</li> <li>• Assess achievement of key project milestones.</li> </ul>

Description of risk	Sources of assurance	Planned audit response
	<p>2. ARC Deep Dive March 2021</p> <p>Further assurance activity:</p> <p>Controls are developing in the following areas to achieve target substantial assurance:</p> <ul style="list-style-type: none"> <li>- Communication strategy</li> <li>- Public bodies Keeper Induced Registration (KIR) process improvements</li> <li>- Land mass coverage strategy.</li> </ul>	

Source: Audit Scotland

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

- 25.** Audit reporting is the visible output for the annual audit. All audit outputs will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 26.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.
- 27.** We will provide an independent auditor's report to Registers of Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Registers of Scotland and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.
- 28.** [Exhibit 5](#) outlines the target dates for our audit outputs. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28/02/2022	Agreed via correspondence
Annual Audit Report	14/09/2022 *	09/08/2022
Independent Auditor's Report	14/09/2022 *	14/09/2022 (Board)

Source: Audit Scotland

*\*This date represents when the independent auditor's report will be signed and the final annual audit report issued. We will provide copies to those charged with governance in advance of the August committee to enable them to be considered.*

## Timetable

**29.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

**30.** The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality. We will continue to work in close partnership with management with clarity over timescales throughout the course of the audit.

## Exhibit 6

### Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package	30 May 2022
Latest date for final clearance meeting with the Director of Finance	5 July 2022
Agreement of audited and unsigned annual report and accounts	12 July 2022
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report	19 July 2022
Signed Independent Auditor's Report	14 September 2022

Source: Audit Scotland

## Audit fee

**31.** The proposed audit fee for the 2021/22 audit of Registers of Scotland is £54,990 (2020/21: £53,890). In determining the audit fee, we have taken account of the risk exposure, planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**32.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**33.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**34.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We do plan to consider the findings of internal audit across a range of work including the payroll follow-up and the work on equality, diversity and inclusion.

## Independence and objectivity

**35.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**36.** The engagement lead (i.e. appointed auditor) for Registers of Scotland is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Registers of Scotland.

## Quality control

**37.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**38.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**39.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# Registers of Scotland

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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