

Registers of Scotland

Annual Audit Plan 2019/20



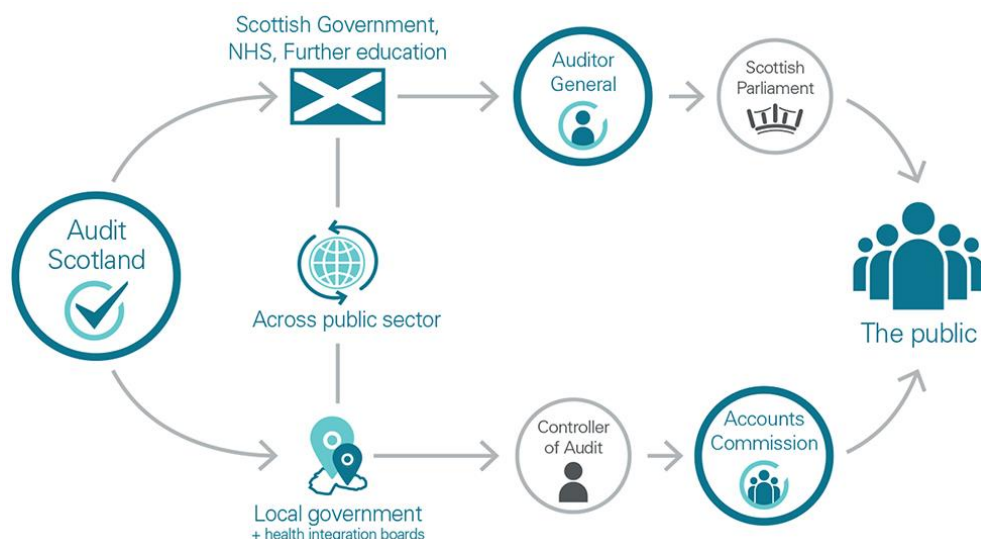
 AUDIT SCOTLAND

Prepared for Registers of Scotland
February 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to the Registers of Scotland (RoS) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help RoS promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks


4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for RoS. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions which are outside the normal course of business.
<p>2 Risk of fraud over income and expenditure</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. In 2018/19 RoS</p>	<p>Key control processes for income and expenditure are working effectively.</p>	<ul style="list-style-type: none"> Analytical procedures and controls testing on income and expenditure.

 Audit Risk	Source of assurance	Planned audit work
<p>received £65.6 million (91 per cent) of its income from statutory fees and £6.2 million (9 per cent) from non-statutory, commercial activity. RoS does not currently receive funding from the Scottish Government.</p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to consider the risk of fraud over expenditure, extending the requirements of ISA 240. The risk of fraud over expenditure exists due to the materiality of expenditure incurred by the RoS in carrying out its functions.</p>	<p>Counter fraud procedures are well established and active.</p> <p>Effective budget monitoring by management and reporting to appropriate levels in the organisation.</p> <p>Internal audit work on purchasing/procurement/AP controls (Q4).</p>	<ul style="list-style-type: none"> • Detailed testing of income and expenditure transactions focusing on the areas of greatest risk. • Cut-off testing of income and expenditure streams. • Review of arrangements to prevent and detect fraud. <p>This work is designed to cover the audit assertions of cut-off, accuracy, valuation and allocation.</p>
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas: capital and revenue split for IT projects, provisions accounting for indemnity payments and work in progress calculations. The number of these estimation areas and their subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Each of these elements have robust processes using relevant experts from the business to support them.</p>	<ul style="list-style-type: none"> • Examination of the accuracy, completeness and valuation of disclosures in the 2019/20 accounts. • Focussed testing of the related expenditure. • Regular discussions with management. • Review of supporting evidence. <p>The work planned is designed to cover the audit assertions of accuracy, valuation and allocation.</p>
<p>4 Reclassification of RoS</p> <p>RoS will be reclassified as a central government body from 1 April 2020 as a result of an Office of National Statistics decision.</p> <p>The organisation's full income and expenditure will fall within the Scottish Government's budgeting boundary.</p> <p>There is a risk that the accounting entries are not correctly implemented and a resulting risk that under central government rules RoS will not be allowed to carry forward its current surplus.</p>	<p>Finance officers are working closely with Scottish Government colleagues to ensure the required actions and transfers are taken to comply with the required change in classification and with existing accounting guidance, the FReM etc.</p>	<ul style="list-style-type: none"> • Substantive testing of any year-end adjustments to ensure compliance with the regulations, Scottish Government requirements, and the FReM etc. • Examination of disclosures made in the accounts for compliance with the change in status. <p>The work planned is designed to cover the audit assertions of accuracy, valuation and allocation.</p>

	Audit Risk	Source of assurance	Planned audit work
Wider dimension risks			
5	<p>Financial management and sustainability</p> <p>RoS' existing Strategic Plan was predicated on the use of substantial reserves in the next 5 years to invest in the business, complete the Scottish Land Register and thereby drive out operational efficiencies. The change of status to a central government body however removes RoS' ability to hold reserves and they will be returned to the Scottish Consolidated Fund.</p> <p>The reclassification means a fundamental change to RoS' existing funding and investment model. This will require a significant change to its current financial planning and budgeting processes and arrangements to ensure RoS continues to deliver its objectives and overall financial sustainability.</p> <p>There is a risk that longer-term plans are no longer affordable as a result of not having reserves to call upon.</p> <p>There is a risk that RoS is unable to demonstrate the long-term benefits and value for money of its investments and completed transformation programme.</p>	<p>Financial reporting to the board is of good quality.</p> <p>The development of a long-term financial strategy has had input from the Keeper, the accountable officer and chair of the audit and risk committee.</p> <p>RoS has a well-established system budget setting and financial reporting.</p> <p>Internal audit work on financial planning (Q 3).</p>	<ul style="list-style-type: none"> Review revised longer term financial plans, strategy and forecasts. Review of benefits reporting to governance boards including to Service Alignment Team.
6	<p>Organisational change and workforce planning</p> <p>There is a risk that RoS is not adequately organised and resourced to carry out its core functions in the future. A strategic workforce plan is in place. The current Strategic Plan projects staff levels will decrease by around 18 per cent between 2022/23 and 2023/24.</p>	<p>Ongoing work on strategic workforce planning.</p> <p>Internal audit work on Workforce planning (Q1).</p>	<ul style="list-style-type: none"> Review monitoring arrangements for workforce planning. Review relevant governance board minutes and papers.
7	<p>Governance and Transparency</p> <p>RoS continues to increase openness and transparency.</p> <p>A transparency project team has been established to progress work in this area. This includes considering which governance board meetings it would be appropriate to hold in public.</p> <p>There is still scope for increasing the transparency of governance</p>	<p>Board minutes are publicly available on the website.</p>	<ul style="list-style-type: none"> Monitor transparency project progress. Assess the transparency of RoS' performance reporting

	Audit Risk	Source of assurance	Planned audit work
arrangements and in particular performance reporting.			

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
6. 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 officer(s) to confirm factual accuracy.
7. We will provide an independent auditor's report to RoS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2019/20 Audit outputs

Audit output	Target date	Audit and Risk Committee (ARC) or Board (B) date
Annual Audit Plan	3 February 2020	10 February 2020 (ARC)
Management Report	23 April 2020	30 April 2020 (ARC)
Annual Audit Report	13 July 2020	20 July 2020 (ARC)
Independent Auditor's Report	19 August 2020	18 August 2020 (B)

Source: Audit Scotland

Audit fee

8. The proposed audit fee for the 2019/20 audits is £53,210 (£52,510: 2018/19), an increase of 1.3 per cent. In determining the audit fee, we have taken account of the risk exposure of RoS, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial report, with a complete working papers package on 22nd May 2020.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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.

Responsibilities

Audit and Risk Committee and Accountable Officer

10. Audited bodies have 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 successfully deliver their objectives.

11. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

12. 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.

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

Audit scope and timing

Financial Statements

14. The financial statements will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of RoS and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how RoS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial position of RoS and its income and expenditure
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

Other information in the annual report

16. We also review and report on statutory other information published within the annual report including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also read and consider any information in the annual report other than the financial statements audited part of the remuneration and staff report and we report any uncorrected material misstatements.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated materiality values for RoS are set out in [Exhibit 3](#).



characteristics



responsibilities



principal activities



risks



governance arrangements

Exhibit 3

Materiality values

Registers of Scotland materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross income for the year ended 31 March 2020 based on the latest budget projection for 2019/20.	£0.737 million
Performance materiality – 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 calculated performance materiality at 70% of planning materiality.	£0.516 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality (rounded down slightly).	£35,000



Source: Audit Scotland

Timetable

20. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage – Registers of Scotland	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	22nd May 2020
Latest date for final clearance meeting with Head of Finance	26 June 2020
Agreement of unsigned annual report Issue of Annual Audit Report to those charged with governance	13 July 2020
Independent auditor's report signed	19 August 2020

Internal audit

21. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. Internal audit is provided by the Scottish Government Internal Audit Service

Using the work of internal audit

22. Part of our Scottish Government external audit team's planning work includes an annual assessment of the adequacy of the internal audit function. We will liaise with our Scottish Government external audit team to confirm that the Internal Audit Service operates in accordance Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

23. From our review of internal audit's 2019/20 annual plan we have identified the following audits of particular relevance which will be considered as part of our wider dimension responsibilities:

- Workforce planning (Q 1)
- Financial planning (Q 3)

24. We will also consider the planned audit of purchasing/procurement/accounts payable controls (Q4) and depending on the scope and timing of this, consider placing formal reliance on this.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

26. 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 longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of RoS' financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place for RoS to address any identified funding gaps and ensure that funding identified is appropriate and sustainable
- whether RoS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

27. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether RoS has arrangements in place to ensure systems of internal control are operating effectively
- whether RoS can demonstrate the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how RoS has assured itself that its financial capacity and skills are appropriate
- whether RoS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

28. 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. We will review, conclude and report on:

- whether RoS can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting
- the extent to which RoS supports openness and transparency by making relevant information on RoS publicly available
- the arrangements RoS has in place to counter fraud in respect of its procurement processes
- the arrangements RoS has in place for complying with equalities legislation.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether RoS can demonstrate:

- that value for money in the use of resources is being achieved
- that there are appropriate systems for measuring and reporting performance
- that there is sufficient focus on improvement and the pace of it.

Independence and objectivity

30. Auditors appointed by the Accounts Commission or Auditor General 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.

31. The engagement lead (i.e. appointed auditor) for RoS is Stephen Boyle, 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 RoS.

Quality control

32. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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.

33. 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 have been commissioned to carry out external quality reviews.

34. 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

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