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# National Records of Scotland

Annual Audit Plan 2016/17



 **AUDIT SCOTLAND**

Prepared for National Records of Scotland  
January 2017

## 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 of National Records of Scotland (NRS) and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with management, attendance at Audit & Risk Committee meetings and a review of supporting information we have identified the following main risk areas for NRS. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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>N/A.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NRS receives income from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, per ISA 240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<p>Effective budget monitoring by management.</p> <p>Internal audit coverage.</p> <p>Fraud Response Plan and Reporting Fraud Guidance.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed substantive testing of revenue and expenditure transactions focusing on the areas of greatest risk.</p> <p>Evaluation of the effectiveness of systems of internal control for income and expenditure recognition and recording.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>3 Finance staff turnover</b></p> <p>NRS have experienced a high turnover of finance staff in 2016. In addition, the Accountable Officer has recently left the organisation in January 2017. This is a loss of knowledge and experience, with all key staff involved in the audit process last year now left the organisation. We acknowledge that key finance posts have been filled in recent months with staff that have accounting and finance experience in the public sector.</p> <p>Nevertheless, there remains a risk that NRS may not have the required financial capacity to deliver the 2016/17 Annual Report and Accounts.</p>	<p>NRS have recently appointed a Chief Finance Officer in January 2017, who is also interim Accountable Officer. Handover procedures were carried out prior to previous key finance members leaving.</p>	<p>Monitor the ongoing resources of the finance team.</p> <p>Provide finance staff with a working papers checklist and technical guidance to assist preparation of the draft Annual Report and Accounts.</p> <p>Organise a planning meeting with key finance staff prior to the financial statements audit.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>4 Financial sustainability</b></p> <p>NRS, similar to other public sector bodies, face challenges over future funding allocations during this period of economic uncertainty. The main financial target for NRS is to achieve a break even position at year-end, with a budget of £28.4m for 2016/17. As at January 2017, NRS are reporting an over-commitment against budget of £653,000. The finance team are working with management and expect this over-commitment to be reduced by year-end.</p> <p>Therefore, the organisation continues to face a risk over its financial sustainability due to budget pressures and uncertainty over future funding allocations and income sources.</p>	<p>Effective budget monitoring by the finance team.</p> <p>Regular financial reporting to the Management Board and Audit &amp; Risk Committee.</p> <p>Ongoing communication with the Scottish Government finance directorate.</p>	<p>Communicate closely with senior finance staff regarding budget plans and finance reports.</p> <p>Focused cut off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p>
<p><b>5 IT strategy and resources</b></p> <p>There is currently no Information Technology (IT) strategy or plan in place at NRS. This should be a priority given the organisation's objective to digitise their records over the coming years and also due to the IT incidents which occurred in 2016. In addition, there are a number of vacancies for key IT posts, including a Head of ICT to oversee the department.</p>	<p>Corporate and digital services will be developed in 2017/18.</p> <p>NRS have appointed an Organisational Development Manager in January 2017 to oversee the implementation of the NRS People Plan.</p> <p>Work is underway to recruit a new IT Lead.</p>	<p>Monitor progress of IT plans and review strategy when available.</p> <p>Conduct the Your Business @ Risk (YB@R) survey to review NRS staff awareness of information security.</p> <p>Monitor recruitment plans for key areas, such as ICT and the Census programme.</p>

Audit Risk	Management assurance	Planned audit work
<p>There is therefore a risk that NRS do not have the required resources and plans in place to meet the organisation's digital objectives.</p>		
<p><b>6 Governance framework</b></p> <p>As reported previously to the Audit &amp; Risk Committee, agreement of the NRS Framework Document with the Scottish Government (SG) has been overdue for some time.</p> <p>We have also reviewed a number of policies in place for key financial procedures. However, there are no 'Financial Regulations' or 'Standing Orders' in place at NRS which capture key financial and governance arrangements. These documents are commonly in place at other public sector bodies.</p> <p>There is therefore a risk that NRS governance arrangements are unclear while the Framework Document is still to be agreed, which could lead to delays in decision making and lack of clarity for staff.</p>	<p>Work is currently underway to finalise and agree the Framework Document with SG.</p> <p>The NRS intranet sets out a number of key procedures and policies available to staff.</p>	<p>Review Framework Document with SG when available.</p> <p>Review update of key governance documents.</p>

## Reporting arrangements

3. Our audit reports document the results of the audit work performed during the year. 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](http://www.audit-scotland.gov.uk).
4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to management to confirm factual accuracy.
5. We will provide an independent auditor's report to National Records of Scotland, Scottish Parliament and the Auditor General for Scotland summarising the results of our audit. 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 in the course of the audit.
6. Under the Public Finance and Accountability (Scotland) Act 2000, there is a requirement for the audited financial statements of National Records of Scotland to be presented to Parliament within nine months of the financial year-end i.e. 31 December.

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## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit & Risk Committee Date
Annual Audit Plan	28 February 2017	16 February 2017
Interim Report to Management (if required)	31 May 2017	18 May 2017
Report on ICT Review (YB@R survey)	30 June 2017 (tbc)	31 August 2017
Annual Audit Report including ISA 260 requirements	31 August 2017	31 August 2017
Signed Independent Auditor's Report	1 September 2017 (tbc)	N/A

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## Audit fee

7. The audit fee for the 2016/17 audit of National Records of Scotland is £62,640. In determining the audit fee we have taken account of the risk exposure of National Records of Scotland, 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 Annual Report and Accounts, with a complete working papers package on 18 July 2017.
8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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 outwith our planned audit activity.

## Responsibilities

### Corporate Governance

**9.** NRS is a non-ministerial department within the Scottish Administration. It is headed by a Chief Executive, who fulfils the role of two non-ministerial office holders, the Registrar General for Scotland and the Keeper of the Records of Scotland.

**10.** The Chief Executive is advised by a Management Board on the operations of NRS, with a particular focus on the strategic direction of the organisation, monitoring if NRS is on course to deliver its purpose and vision. The Management Board is then supported by the Audit & Risk Committee, Corporate Leadership Group and Business Leadership Group to oversee the governance arrangements at NRS. The Accountable Officer has an important role within this governance structure, with the newly appointed Chief Finance Officer taking up this position on an interim basis.

### Audit & Risk Committee and Accountable Officer

**11.** 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.

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

### Appointed auditor

**13.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**14.** Auditors in the public sector give an independent opinion on 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

**15.** The statutory financial statements audit will be the foundation and source for the majority 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 National Records of Scotland 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 National Records of Scotland 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.

**16.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited bodies and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation and the applicable accounting framework
- the regularity of the expenditure and income
- the consistency between the narrative in the Annual Report and the results in the financial statements
- the consistency of the governance statement.

## Materiality

**17.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for National Records of Scotland are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross budgeted expenditure for the year ending 31 March 2017, based on the most recent NRS finance report.	£300,000
<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 calculated performance materiality at 60% of planning materiality.	£180,000
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£6,000

**18.** We review and report on other information published with the financial statements, including the Performance Report and Accountability Report (which includes the Governance Statement and Remuneration and Staff Report). Any issues identified will be reported to the Audit & Risk Committee.

### Timetable

**19.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit & Risk Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited National Records of Scotland's financial statements with complete working papers package	18 July 2017
Latest date for final clearance meeting with the Accountable Officer	7 August 2017
Agreement of audited unsigned financial statements; Issue of draft Annual Audit Report including ISA 260 report to those charged with governance	17 August 2017
Presentation of Annual Audit Report to Audit & Risk Committee	31 August 2017
Independent auditor's report signed	1 September 2017 (tbc)

## Internal audit

**20.** 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 and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Directorate.

**21.** Our Scottish Government external audit team will perform 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 Directorate operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**22.** As part of our planning process we review internal audit reports and findings for NRS which may impact on our financial statements audit approach. In respect of our wider governance and performance audit work we plan to review the findings and consider areas of internal audit work in 2016/17, including their work on Information Handling and Security, People Engagement and Assurance Mapping.

## ICT audit work

**23.** In 2016, NRS was subject to a number of IT incidents, including a cyber attack which affected the wider Scottish Government network. This affected the SCOTS network used by NRS staff and resulted in system outage lasting two days. Due to the importance of information governance and security of the data and records which NRS holds, we have agreed with management to carry out a 'Your Business @ Risk' staff survey in 2016/17.

**24.** This survey will provide a snapshot of whether NRS information governance policies are achieving their objectives. It can also help in the avoidance of data loss by highlighting the procedural, cultural and ethical risks that exist within the organisation. We plan to summarise the conclusions and risks to the organisation as part of an interim report to management, which we will then report to the Audit & Risk Committee.

## Census 2021

**25.** NRS continues to prepare for the Census in 2021. This will see NRS receive an additional amount of funding from the Scottish Government, with an estimated cost of approximately £110m over the 10 year life of the Census programme. This includes £4m of funding allocated in the NRS budget for 2016/17.

**26.** Work is progressing on developing project plans, establishing the governance framework arrangements for the programme and updating the business case, as more accurate costing information emerges.

**27.** The programme will see the organisation expand in the lead up to the Census, and afterwards to collate and analyse the data beyond 2021. Management should ensure they plan its workforce effectively for the programme, including a focus on targeting the recruitment of staff in specialist areas, such as IT and analytics. We will continue to monitor the governance arrangements and budgeting for this programme as it progresses.

## National Fraud Initiative (NFI)

**28.** NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

**29.** The current data matching exercise collected data in October 2016 and match investigation work began in January 2017. The Scottish Government (SG) finance directorate investigate relevant data matches on behalf of NRS, due to the shared SG finance and payroll systems used. We will monitor the progress and outcomes of the NFI exercise throughout the audit process and report relevant findings in our Annual Audit Report.

## Whole of Government Accounts

**30.** The Code of Audit Practice requires appointed external auditors to review and report on whole of government accounts (WGA) returns prepared by audited bodies. External auditors of Central Government entities are required to certify 2016/17 WGA returns, as in prior years. We do not expect NRS to be within the boundary determined by HM Treasury for WGA for the 2016/17 year. We will, however, monitor this position throughout the year and report accordingly following the year end.

## Audit dimensions

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

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### Exhibit 5

#### Audit dimensions




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### Financial sustainability

**32.** 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 the body's 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 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 to address any identified funding gaps
- whether NRS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

**33.** NRS face challenges regarding its financial sustainability, as noted in Exhibit 1. This, in common with all Scottish public sector bodies, is as a result of uncertainty in future funding and due to the one year budget settlement received. NRS also relies on additional income to achieve its financial targets each year. Therefore a priority NRS faces is ensuring additional income sources are managed effectively, including revenues received from the new ScotlandsPeople website. NRS have draft budget plans in place up to financial year 2019/20. The Scottish Government draft budget settlement for 2017/18 has recently been announced, which will allow management to revise their budget plans accordingly.

### Financial management

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

**35.** As noted in Exhibit 1, the turnover of key finance staff at NRS has been significant in 2016. Management should review the new structure of the finance team and also liaise with the Scottish Government to ensure that a suitable Accountable Officer is appointed, as this is an important role in the governance framework of the organisation. Management should also be satisfied that the new staff and structure of the finance team is suitable to provide the organisation with sound financial and budgetary controls.

**36.** We will review, conclude and report on:

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

### Governance and transparency

**37.** 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.

**38.** NRS has a number of governance documents in place, including a detailed Scheme of Delegated Authority and Risk Management Framework. As noted in Exhibit 1, we recommend that agreement of their Framework Document with the Scottish Government should be prioritised to enhance their governance arrangements. Furthermore, NRS would benefit from refreshing some of their key policies, including their Fraud Response Plan and Whistleblowing Policy, to ensure these are fit for purpose.

**39.** We will review, conclude and report on:

- whether NRS 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.

**40.** An additional area we will cover in our 2016/17 audit, as part of a previous Audit Scotland national performance audit, is to carry out a follow-up review of 'The Role of Boards'. This report was published in September 2010. Our follow up review will assess the governance, decision-making and scrutiny arrangements of the NRS Management Board. We will complete a questionnaire to assess the NRS arrangements in place, which we are required to submit internally at Audit Scotland by 30 June 2017. We will report the outcomes of our work in our Annual Audit Report.

### **Value for money**

**41.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- NRS can provide evidence that it is demonstrating value for money in the use of its resources
- NRS can demonstrate that there is a clear link between money spent, output and outcomes delivered
- NRS can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

### **Independence and objectivity**

**42.** Auditors appointed by the Auditor General for Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**43.** The engagement lead for National Records of Scotland is Asif A Haseeb. 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 National Records of Scotland.

## Audit team

44. The local audit team will be led by the Senior Auditor, Jonny Steen, who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in [Exhibit 6](#). The audit team will be supplemented by additional staff during peak times.

## Exhibit 6

### External audit team

Name	Experience
Asif A Haseeb ACMA, MBA <i>Engagement Lead</i>	Asif joined Audit Scotland in October 2001. Before this he was chief auditor in a Scottish council. Asif has over 22 years of public sector audit experience and substantial financial management and board level experience in the public sector gained through non-executive membership of various boards (currently member of Court of the University of the West of Scotland). He is also a Justice of the Peace (lay magistrate).
Jonny Steen BAcc (Hons), CA <i>Senior Auditor</i>	Jonny has been with Audit Scotland for 5 years and qualified as a chartered accountant in 2015. He has experience of working in the NHS, having worked on the audit of NHS Greater Glasgow and Clyde for the last 4 years. He has also worked on a number of central government and local government audits.
Wojciech Kuzma BSc Econ, MLitt <i>Professional Trainee</i>	Wojciech joined Audit Scotland in 2015 as a professional trainee. Wojciech is mid-way through studying for the Institute of Chartered Accountants of Scotland qualification. He graduated in 2010 with a BSc Econ in Business and Management from Aberystwyth University, and in 2011 with a MLitt in International Business from University of St. Andrews.

## Quality control

45. 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.

46. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

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.

# National Records of Scotland

## Annual Audit Plan 2016/17

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