

National Records of Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for National Records of Scotland

February 2019

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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. The plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.

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

Adding value

3. We aim to add value to National Records of Scotland (referred to as 'NRS' throughout) 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 NRS promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with management, attendance at the 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 statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of management override of controls</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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates and accounting policies. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income and expenditure</p> <p>National Records of Scotland receives income from several sources, in addition to Scottish Government</p>	<p>Effective budget monitoring by management.</p>	<ul style="list-style-type: none"> • Analytical procedures on income and expenditure streams. • Detailed substantive testing of income and expenditure

 Audit Risk	Source of assurance	Planned audit work
<p>funding. The extent and complexity of income means that, in accordance with ISA240, 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, which tend to have an overall net expenditure outturn.</p>	<p>Fraud Response Plan and Fraud Policy Statement.</p>	<p>transactions focusing on the areas of greatest risk.</p>
<p>3 Estimation and judgements</p> <p>There is a degree of subjectivity in the measurement and valuation of the NRS account areas of non-current assets and accruals. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Effective budget monitoring by management.</p> <p>Regular financial reporting to the Executive Management Board and the Audit & Risk Committee.</p> <p>Review of technical guidance when preparing the NRS annual report and accounts.</p>	<ul style="list-style-type: none"> • Focused substantive testing during the financial statements audit of key judgemental areas. • Review of accounting policies to ensure these are reasonable and comply with the Financial Reporting Manual (FRoM). • Review material asset classifications for accuracy and ensure valuations recommended by the external expert are reasonable.
<p>Wider dimension risks</p>		
<p>4 Financial sustainability</p> <p>Census and funding</p> <p>The current approved budget for the remainder of the Census programme is £88 million. NRS management have advised that the estimated cost is higher than the approved funding from the Scottish Government (SG), with particular pressures in 2019/20 and 2020/21. NRS management have advised the funding allocation announced in the SG's Budget 2019/20 does not fully support NRS' plans for the Census programme, with an estimated shortfall of £5.9 million in 2019/20. There is therefore a risk that NRS will not deliver the Census 2021 within budget.</p> <p>There is a further risk for NRS that they will not be able to produce a meaningful rehearsal in Autumn 2019 due to the financial pressures noted above, challenges recruiting key staff and due to the delay in procuring an IT application (a Workload Manager) which will now not feature in the rehearsal.</p>	<p>Close engagement with Scottish Government Finance and Scottish Ministers, as key stakeholders and funders of the programme, on the financial challenge and the delivery risks associated with the current financial situation.</p> <p>Work to identify savings to reduce or re-profile the costs of the programme to reduce the financial gap without taking on risks that cannot be mitigated.</p> <p>Undertaking an internal review of financial management and control processes.</p> <p>A robust Integrated Assurance and Approval Plan is in place, and the programme is engaged with a range of assurance providers including TAF, Gateway/Healthchecks and Internal Audit.</p>	<ul style="list-style-type: none"> • Review the Census budget and financial forecasts for the programme. • Review of NRS' engagement with the Technical Assurance Framework and level of support received from the Scottish Government Digital Directorate.

 Audit Risk	Source of assurance	Planned audit work
<p>5 Governance and transparency <i>NRS strategy and policies</i></p> <p>NRS have made progress implementing their new organisational structure. This includes setting up new boards and committees (with terms of reference for each) and developing new budget arrangements and delegated limits of authority to reflect the new operational structure.</p> <p>However, some key documentation require updating to reflect these changes:</p> <ul style="list-style-type: none"> • The NRS Business Strategy 2018/19 to 2022/23 has been in draft since June 2018. • Financial regulations (including budget setting guidance) require updating to reflect the new structure and budget arrangements. • The Corporate Resilience and Business Continuity is in draft and soon to be finalised. ICT disaster recovery plans require updating. <p>There is risk that decision making and actions will not be aligned with NRS' objectives, while the NRS strategy and key policies continue to be works in progress.</p>	<p>Executive Management Board taking a strong role in monitoring and managing strategic decisions and investments in the context of an approved annual plan to mitigate the risk of misalignment with objectives and priorities.</p> <p>With a new Chief Executive now in post, developing a five-year business strategy in 2019/20.</p> <p>Prioritising corporate policies and strategies now that a number of key roles in the new organisational structure have been filled.</p> <p>Establishment of a business improvement function to bring a structured approach to these activities.</p>	<ul style="list-style-type: none"> • Review update of key governance documents. • Ensure new governance arrangements reflect Scottish Government guidance, such as the Scottish Public Finance Manual.

Source: Audit Scotland

Wider dimension risks

5. Per Audit Scotland's Guidance on Planning the Audit 2018/19, the following areas are considered to be risk areas for all audited bodies in 2018/19:

- EU withdrawal
- Changing landscape for public financial management
- Dependency on key suppliers
- Openness and transparency.

6. We will consider these risks in the context of NRS during our audit work and ongoing risk assessment, and report any relevant findings in our Annual Audit Report.

Reporting arrangements

- 7.** Our annual audit plan and outputs are detailed in [Exhibit 2](#). These reports, and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk. Our Annual Audit Report will be published after the NRS annual report and accounts have been laid before the Scottish Parliament.
- 8.** 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 relevant officers to confirm factual accuracy.
- 9.** We will provide an independent auditor's report to National Records of Scotland, the Auditor General for Scotland and the Scottish Parliament setting out our opinions on the annual report and 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.
- 10.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year-end, i.e. 31 December.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Audit & Risk Committee Date
Annual Audit Plan	28 February 2019	28 February 2019
Interim Management Letter (if required)	28 May 2019	28 May 2019
Annual Audit Report (including ISA 260 requirements)	5 September 2019	5 September 2019
Independent Auditor's Report signed	6 September 2019	N/A

Source: Audit Scotland

Audit fee

- 11.** The audit fee for the 2018/19 audit of National Records of Scotland is £65,230 (2017/18: £63,400). 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 work of internal audit. Our audit approach assumes receipt of the full, unaudited annual report and accounts for the year-ended 31st March 2019, with a complete working papers package on 1 July 2019.
- 12.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts, 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

National Records of Scotland

13. 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.

14. The audit of the annual report and accounts does not relieve management or the Audit & Risk Committee as those charged with governance, of their responsibilities.

Appointed auditor

15. 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.

16. 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 NRS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual report and accounts

17. Our audit of the annual report and accounts, which include 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 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.

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

- give a true and fair view of the of the state of affairs of NRS as at 31 March 2019 and of its net expenditure for the year then ended;
- have been prepared in accordance with relevant legislation, the financial reporting framework and other requirements for Central Government bodies.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual report and accounts

19. We review and report on other information published within the annual report and accounts including the performance report, governance statement and the remuneration & 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.

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

Materiality

21. 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.

22. 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	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.25% of gross budgeted expenditure for the year ended 31 March 2019 based on the most recent NRS finance report available.	£455,000
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 75% of planning materiality.	£340,000
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 3% of planning materiality.	£14,000

Source: Audit Scotland

Timetable

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

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited NRS annual report and accounts with complete working papers package to the audit team	1 July 2019
Latest date for final clearance meeting with the Chief Finance Officer	12 July 2019
Agreement of audited, unsigned NRS annual report and accounts and issue of draft Annual Audit Report (including ISA 260 requirements)	2 August 2019
Presentation of Annual Audit Report to those charged with governance	5 September 2019
Independent auditor's report signed	6 September 2019

Internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible.

25. Internal audit is provided by the Scottish Government Internal Audit Directorate (IAD). As part of our planning process we carry out an annual assessment of the IAD to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). This review will be carried out by our Scottish Government external audit team in spring 2019. We will report any significant findings to management in our Annual Audit Report.

26. As part of our planning process we review internal audit reports and findings for NRS which may impact on our audit approach. In respect of our wider governance and performance audit work, we plan to consider their work on Workforce Planning and the Census 2021. This will provide us with assurance for the wider audit dimensions we review each year, as discussed in further detail on p.12 onwards.

Information & Communications Technology (ICT)

27. NRS have continued to make good progress improving their IT infrastructure and have also recruited a number of key ICT posts in 2018/19. NRS now have a Common Operating Platform Programme underway to drive IT improvements.

28. A significant development for NRS are its plans to move away from on-premises IT to a public cloud based system, where all NRS data and applications will be accessible. This will reduce NRS' management of their IT stack on-premises. This structure also aligns with Scottish Government guidance and management have chosen this as the best option for NRS due to several factors - a cloud system is a scalable, reliable and highly available supporting platform. The cloud will have improved security, governance and managements with associated tools, processes and standards. It is also highly connected to aid sharing and collaboration.

29. However, several risks have also been considered by NRS moving to a cloud system:

- Usage costs will become 'utility billing' so requires real-time analysis and full understanding of costs models
- Cloud architecture is a specialism that does not currently exist within NRS. This expertise will be resourced externally for initial set up. The level of in-house support (below the application layer) is likely to be minimal if most applications are compatible with NRS' preferred cloud solution.
- Business Critical systems need to be reviewed to identify if NRS applications can be moved to the optimal cloud solution, which moves all NRS data and applications to a 3rd part vendor to manage in full.

30. This is a significant programme of work NRS are undertaking. We will continue to monitor work in this area and report findings in our Annual Audit Report.

Whole of Government Accounts

31. 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 2018/19 WGA returns, as in prior years. We do not expect NRS to be within the boundary determined by HM Treasury for WGA for the 2018/19 year, which will reduce our audit testing in this area. We will, however, monitor this position throughout the year and report accordingly following the financial year-end.

Audit dimensions

32. 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

33. 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 short term (up to two years), medium term (two to five years) and longer term (longer than five years) sustainability.

34. We have highlighted in [Exhibit 1](#) that NRS faces significant challenges in the short term managing the budget for the Census 2021 programme. NRS have taken steps in 2018/19 to balance the Census budget. This has included:

- utilising underspends in other areas of the business (e.g. staff costs due to vacancies) to alleviate cost pressures on the Census of £1.7m
- a revenue to capital transfer in the Census budget of approximately £1 million
- changes to NRS' capital programme, delaying some Estates works into 2019/20.

35. An additional consideration for NRS is the lifting of the public sector pay cap for 2018/19, with similar arrangements continuing into 2019/20. In summary, the Scottish Government Budget 2019/20 sets out the following in relation to public sector pay; the Budget will:

- include a three per cent pay rise for all earning less than £36,500
- cap the pay bill at two per cent for all those between £36,500 and £80,000; and
- limit the maximum pay uplift for those earning over £80,000 to £1,600.

36. NRS will need to consider the impact of these pay increases for its employees and factor this into future budgets and savings plans.

37. We will review NRS' financial sustainability 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.

Financial management

38. 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 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

39. 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.

40. NRS undertook a significant governance re-structure in 2018. As noted in [Exhibit 1](#), we have noted progress in implementing the new structure, which has included communication and engagement with staff. The new boards and committees set up met regularly throughout 2018. We have highlighted that the overarching NRS strategy requires to be finalised, which management have advised will be a priority for the Strategic Board and new Chief Executive. The completion of the strategy, as well as updating key governance documents, will ensure NRS' new structure becomes embedded and decision making is in accordance with the organisation's objectives.

41. 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.

Value for money

42. 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.

Best value

43. Best Value (BV) duties apply across the public sector. For sectors other than local government, the Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure BV.

44. There is an expectation that equalities will be reviewed through the audit process. Auditors should aim to consider this area at least once during their audit appointment. We will consider when is the best time to carry out this work and report back to the Audit & Risk Committee in due course.

Independence and objectivity

45. Auditors appointed by the Auditor General 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.

46. The engagement lead (i.e. appointed auditor) for NRS 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.

47. The audit team will remain largely the same as last year. The local audit team will be led by Jonny Steen, Senior Auditor, who will be responsible for day to day management of the audit and who will be your primary contact.

Quality control

48. 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.

49. 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.

50. 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

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk