

National Records of Scotland

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for National Records 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 Report and Accounts and meet the wider scope requirements of public 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 National Records of Scotland (referred to as 'NRS') 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 and a review of supporting information we have identified the following significant risk for National Records of Scotland. 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 material misstatement caused by management override of controls</p> <p>Although we have not identified any specific risks of management override of control at NRS, 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.</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.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of material misstatement caused by fraud in income and expenditure recognition</p> <p>NRS receive income from various sources, in addition to Scottish Government 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.</p>	<p>Effective budget monitoring by management and the Executive Management Board.</p> <p>Internal audit coverage.</p>	<ul style="list-style-type: none"> Analytical procedures on income and expenditure streams. Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.
<p>3 Estimation and judgements</p> <p>There is a degree of subjectivity in the categorisation, 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 (FReM). Review material asset classifications for accuracy and ensure valuations recommended by the external expert are reasonable.
<p>Wider dimension risks</p>		
<p>4 Financial management</p> <p>Census programme</p> <p>Managing the budget and spending profile for the Census programme remains challenging. NRS received an additional £5.9 million in 2019/20 from the Scottish Government to support the programme. Key procurements and contracts in the coming months will need to be carefully managed. There is a risk that the programme will run over-budget or not be delivered as planned while key procurements and budget forecasting remain uncertain.</p>	<p>The Census Programme Board meet monthly to discuss key issues and a finance paper is presented for discussion.</p> <p>A Procurement Assurance Group forms part of the wider Census governance structure.</p> <p>Procurements are subject to Technology Assurance Framework (TAF) pre-procurement gates.</p> <p>The finance team now have dedicated resources to assist with Census finances and budget monitoring.</p>	<ul style="list-style-type: none"> Ongoing review of finance reports and Census Programme Board papers. Continue to liaise closely with the Chief Finance Officer regarding budget pressures. Review budgetary controls as part of our interim audit. Review finance plans and NRS' progress with their savings programme.
<p>5 Governance and transparency</p> <p>Risk management arrangements</p> <p>Management are in the process of defining a risk appetite for the</p>	<p>NRS are in the process of updating their corporate risk framework.</p> <p>The Executive Management Board (EMB) continues to</p>	<ul style="list-style-type: none"> Review risk management plans and risk registers for adequacy.

	Audit Risk	Source of assurance	Planned audit work
	<p>organisation to aid risk identification and monitoring. Risk management for the Census programme also remains an area of development. For the Census, management have previously raised issues with current arrangements and noted risk registers require refreshing.</p> <p>NRS should prioritise developing clear, streamlined risk management frameworks for both core NRS activity, and the Census programme, which staff can easily use to manage and scrutinise key risks.</p>	<p>review the corporate risk register at its monthly meetings.</p> <p>Risk appetite is planned for review by the EMB starting in February 2020.</p> <p>Census risk management arrangements are currently being reviewed by the Project Management Office.</p>	<ul style="list-style-type: none"> • Monitor key risks and review EMB and Census Programme Board papers on a regular basis. • Ensure key risks are appropriately discussed in NRS' Annual Report and Accounts to ensure transparency.
6	<p>Governance and transparency</p> <p>Business continuity management</p> <p>NRS have taken steps to improve their cyber security and have been re-accredited Cyber Essentials Plus. However, the organisation's Business Continuity Management System (BCMS) remain in development. There is a risk to NRS' service continuity and staff uncertainty if an adverse event were to occur.</p>	<p>A business continuity maturity index exercise was completed in 2019. An improvement plan is underway and tracked monthly to address needs.</p> <p>NRS have a refreshed a business continuity plan, crisis management plans, communication protocol, archives and records disaster recovery plan and these are all ready for review by the Corporate Services Director (by mid-March 2020) prior to EMB review (Spring 2020).</p> <p>An organisational resilience strategy and a resilience framework are both in draft. The next steps will be engagement across the organisation to develop and implement this framework to be a more resilient organisation.</p>	<ul style="list-style-type: none"> • Review business continuity plans for reasonableness when available. • Discuss ongoing IT issues with management.

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. Our Annual Audit Report will be published after the NRS Annual Report and Accounts have been laid before the Scottish Parliament.

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 officers to confirm factual accuracy.

7. We will provide an independent auditor's report to National Records of Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the NRS 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.

8. 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

2019/20 Audit outputs

Audit Output	Target date	Audit & Risk Committee Date
Annual Audit Plan	28 February 2020*	5 March 2020
Interim Management Letter	28 May 2020	28 May 2020
Annual Audit Report	3 September 2020	3 September 2020
Independent Auditor's Report	3 September 2020	3 September 2020

* We agreed a final draft of our Plan with management before 28 February 2020 (Audit Scotland's deadline for agreeing Plans).

Audit fee

9. The audit fee for the 2019/20 audit of NRS is £66,530 (2018/19: £65,230). 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 assurance 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 29 June 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited Annual Report and Accounts or being unable to take planned assurance 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 & 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 Annual Report and Accounts does not relieve management or the Audit & Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. 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.

14. 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 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

Annual Report and Accounts

15. The NRS 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.

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

- give a true and fair view of the state of affairs of National Records of Scotland as at 31 March 2020 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.

Statutory other information in the Annual Report and Accounts

17. We review and report on statutory other information published within the Annual Report and Accounts 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.

18. We also review the content of the Annual Report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



characteristics



responsibilities



principal activities



risks



governance arrangements

Materiality

19. 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.

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



Exhibit 3 Materiality values

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 1.25% of gross budgeted expenditure for the year ended 31 March 2020 based on the latest NRS finance report available.	£530,000
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.	£400,000
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.	£16,000

Timetable

21. 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	29 June 2020
Latest date for final clearance meeting with the Chief Finance Officer	10 July 2020
Agreement of audited, unsigned NRS Annual Report and Accounts	31 July 2020
Issue of Annual Audit Report (including ISA260 requirements) to those charged with governance and issue of Letter of Representation	3 September 2020
Approval of the NRS Annual Report and Accounts by the Audit & Risk Committee and independent auditor's report signed	3 September 2020

Internal audit

22. 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.

23. Internal audit is provided by the Scottish Government Directorate for Internal Audit and Assurance. As part of our planning process we carry out an annual assessment of internal audit 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 2020. We will report any significant findings to management in our Annual Audit Report.

24. 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 Governance arrangements and IT services procurement in 2019/20. This will provide us with assurance for the wider audit dimensions we review each year, as noted in the following section.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public 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 short term (up to two years), 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

27. NRS continue to face challenges regarding its financial sustainability and, like other public sector bodies, have faced delays in obtaining their funding allocation from the Scottish Government for 2020/21 due to the UK elections and EU withdrawal implications. NRS has secured additional funding from Scottish Government in 2019/20 to support pension cost increases, but funding for future pay costs remain uncertain. NRS also relies on additional income to achieve its financial targets each year. Therefore, a priority NRS face is continuing to ensure additional income sources are managed effectively.

28. Looking beyond 2019/20, NRS may face a more challenging budget if the Scottish Government continue to only offer incremental increase to revenue funding. Producing a balanced budget may therefore become more challenging looking ahead, especially when coupled with the Census issues highlighted in [Exhibit 1](#). We will review NRS' financial planning and outlook and report findings in our Annual Audit Report.

Financial management

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

30. We are also required to assess the risk of fraud and corruption in the procurement function and report, where relevant, on the arrangements to counter the risk in either the 2019/20 or 2020/21 Annual Audit Reports. We agreed with the management that work in this area will be carried out this year and any issues will be reported in our Annual Audit Report.

Governance and transparency

31. 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 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

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered

- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

33. 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.

34. The work planned for our audit this year will focus on NRS' arrangements for demonstrating the Best Value theme of Equality. This review will involve gaining an understanding of how effective the organisation's processes are in embedding equality and diversity across the business. We will review and report our findings on these arrangements in our Annual Audit Report.

Independence and objectivity

35. Auditors appointed by the Auditor General or the 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 NRS is Asif A Haseeb. The core audit team will remain similar to last year, with Jonny Steen the key point of contact. 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.

Quality control

37. 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.

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.

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If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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