

Steven Hanlon  
Chief Finance Officer  
National Records of Scotland  
Room 3/G/1  
Ladywell House  
Edinburgh  
EH12 7TF

1 April 2020

Dear Steven

## National Records of Scotland 2019/20 - Review of internal controls in financial systems

1. Audit Scotland's Code of Audit Practice requires us to assess the systems of internal control put in place by management. In carrying out this work, we seek to gain assurance that National Records of Scotland (NRS):

- has systems for recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
- has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulation.

## COVID-19

2. The audit work contained in this letter pre-dates the COVID-19 global pandemic and our audit approach may require further revision once we are clearer about the accounting and auditing frameworks that will apply to the audit of the 2019/20 financial year.

## Overall conclusion

3. On the basis of audit work undertaken, we concluded that appropriate and effective internal controls were in place for those key financial systems reviewed by us. Our audit testing did not identify any significant control weaknesses. We did identify some less significant issues which were discussed with management so that appropriate actions could be taken. We followed up our prior year recommendations included in our 2018/19 interim management letter, with relevant updates provided in [Appendix 1](#).

## Audit coverage

4. The following table summarises the key systems and areas that we have tested in our interim audit for financial year 2019/20.

Key System	Audit coverage
Payroll	√
General Ledger	√
Trade Payables	√
Trade Receivables	√
Budget Monitoring	√

5. In addition, we commenced our review of equalities at NRS. The focus of our review was assessing progress with the latest Equalities Mainstreaming Report and discussions with management. We have issued a self-evaluation checklist for management to complete by 30 April 2020. We will report findings of this review in our Annual Audit Report.

6. We have agreed with management a slight change to our 2019/20 audit scope. We are postponing our procurement review until the 2020/21 financial year to allow NRS officers to focus on more immediate priorities concerning COVID-19.

### Scottish Government shared systems

7. NRS use a number of Scottish Government financial systems, such as the Scottish Executive Accounting System (SEAS) and payroll functions. Some controls are therefore managed centrally by the Scottish Government. We will seek assurances from our Scottish Government external audit team regarding these controls and will report any relevant matters which concern NRS in our Annual Audit Report. Our interim audit, therefore, focused on testing the internal controls which are operated locally at NRS.

### Internal audit

8. Internal audit is provided by the Scottish Government Directorate for Internal Audit and Assurance. As this Directorate are the internal auditors for a number of shared Central Government bodies with Audit Scotland, each year we normally complete a review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). This review has been started by our Scottish Government external audit team for the 2019/20 financial year. However, at the time of writing, it is unclear when a final report will be scheduled for the Scottish Government Audit & Assurance Committee due to the impact of COVID-19. We will report any relevant findings for NRS in due course.

9. We have considered internal audit reports issued in 2019/20 for the purpose of our reporting on the wider audit dimensions. However, as none of this year's internal audit reports relate directly to key financial systems, we have not carried out any re-performance of their work for the purpose of our audit of the financial statements.

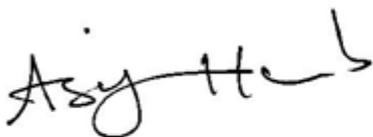
### Risk identification

10. The issues identified in preparing this management letter are only those which have come to our attention during the course of our normal work and are not necessarily, therefore, all the risk areas that may exist. It remains the responsibility of management to determine the extent of the internal control system appropriate to NRS. We would stress, however, that an effective system of internal control is an essential part of the efficient management of any organisation.

### Acknowledgement

11. The contents of this letter have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit from all NRS staff is gratefully acknowledged.

Yours sincerely



**Asif A Haseeb OBE**

**Engagement Lead**

Cc (email): Linda Sinclair (Accountable Officer), Angela Sim (NRS Accountant), Diane Porteous (NRS Finance Manager)

## Appendix 1: Follow up of 2018/19 recommendations

No.	2018/19 Audit Findings	Planned Management Action/ Audit Update	Responsible Officer and Target Date
<b>Census budget monitoring</b>			
1	<p>We reviewed budget monitoring controls and related finance papers issued to NRS management as part of our interim audit work. This highlighted cost pressures for the Census programme. From discussions with management, we have noted that budget monitoring and reporting has not been operating effectively in this area i.e. budget holders have not identified risks and costs pressures quickly and acted on them promptly.</p> <p>Management advised that the Census programme was forecast to spend considerably more than budget (an overspend of £1.4 million) in 2018/19. This cost pressure has since reduced to around £0.5 million by identifying savings and utilising underspends in other business areas. The NRS finance team are closely liaising with the Scottish Government to manage this to a break-even position at year-end.</p> <p>The phase 2 stage of the Census contracts (the 'build and test' phase) is where the cost pressures have arisen, particularly for the Online Collection Instrument contract. Management have advised that the finance team were informed very late in the financial year of expected overspends and that contract monitoring could have been more effective for the Census contracts. The contract manager forecasts were not feeding into the NRS finance reports effectively.</p>	<p><b>NRS management response (April 2019):</b></p> <p>Accepted.</p> <p>A number of actions have already been taken or are underway:</p> <ul style="list-style-type: none"> <li>• An experienced senior public sector finance professional has been appointed as an interim Census Finance Manager. Meanwhile, permanent postholder is being sought in collaboration with a broader SG C1 finance recruitment effort.</li> <li>• A task-and-finish group has been established to examine programme financial controls and develop improved arrangements. The scope of this exercise includes considering how to improve connections and reporting lines into NRS Finance, and the NRS budgetary controls.</li> <li>• An Internal Audit review has been commissioned to test our understanding of the issues and provide assurance on responses proposed.</li> </ul> <p><b>Audit update (April 2020):</b></p> <ul style="list-style-type: none"> <li>• We met with the Census Finance Lead during our interim audit visit. We were pleased to note several improvements as follows:</li> </ul>	<p>Responsible Officer: Chief Finance Officer</p> <p>Target date: July 2019</p>

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**Risk:** There is a risk that NRS will overspend on the Census programme if more control and accountability is not provided for the Census budget and contract management.

**Recommendation:**

We recommend the Census budget is reviewed and closely aligned to the current financial reporting and budgetary control system in place at NRS. Senior officers should be responsible for reviewing contract milestones and supplier expenditure on a regular basis, with clear reporting lines to the NRS finance team.

- There is now dedicated resources in the finance team (a C1 and B2 post) to oversee financial management of the Census programme.
  - A Census budget/cost model has been created which is updated on a monthly basis. This includes forecast expenditure for key contracts.
  - The Census finance team assist with contract management of key Census contracts and attend meetings with the main suppliers.
  - Regular finance reports are presented to a variety of groups including the Executive Management Board and Census Programme Board. Finance updates are regularly produced for the Cabinet Secretary for Culture, Tourism and External Affairs.
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- NRS continue to face significant challenges on the programme and are due to receive £38.4 million for the Census budget in 2020/21. Key procurements are still to be agreed, such as the Census Field Force, which has now slipped into 2020/21.
  - The impact of COVID-19 is also likely to have consequences for the delivery of the programme.
  - We will continue to monitor this situation, discuss progress with management and report Census findings in our Annual Audit Report.

**RECOMMENDATION CLOSED.**

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## Payroll

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2 Staff costs in 2017/18 were £19.3 million (over 60% of overall NRS expenditure). The NRS finance team perform checks on payroll reports sent from the Scottish Government HR/payroll department to check the accuracy of staff costs and staff numbers. This includes updating and reconciling their 'NRS Workforce Plan' on a monthly basis to ensure the actual pay costs reconcile to the SG payroll reports and expenditure recorded in the SEAS general ledger. However, at the time of the audit review at the end of February 2019, the latest reconciliation completed was for payroll costs in November 2018. We acknowledge that staffing changes in the NRS finance team and changes to job roles is a reason for the slight delay in performing these monthly reconciliations.

**Risk:** There is a risk that NRS are not checking and verifying expenditure in this large account area timeously and this could adversely affect NRS achieving their financial objectives.

**Recommendation:** A timetable should be introduced to ensure that the NRS Workforce Plan is reconciled promptly after month-end and checked and reviewed by a second senior officer, with discrepancies reviewed timeously.

### NRS management response (April 2019):

- Due to staff changes and competing priorities this led to a delay in performing reconciliations. A handover was given and guidance note for this piece of work however it is complex being a 3 way reconciliation and therefore this took the new member of staff longer to complete the work required. While this full reconciliation is an important cross check of the detail behind the staffing figures, our monthly budget monitoring and reporting processes would have identified any material deviations from expected staff costs. All reconciliations have now been completed and are up-to date as at P12.
- This work was previously completed without the need for a timetable and the team are aware that after SEAS closes reconciliations should then be completed in a timely manner. Reconciliations are checked by the next line up and discrepancies are investigated when they occur and logged so they are chased and resolved.

### Audit update (April 2020):

- We reviewed key payroll controls and reconciliations during our interim audit visit. We found monthly payroll reconciliations, workforce plans and staff cost budgets were being timeously completed and updated. No issues identified.

### RECOMMENDATION CLOSED.

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Responsible Officer:

NRS Accountant

Target Date:

Not required - reconciliations will be completed in a timely manner.