
National Records of Scotland

Annual report to the Accountable
Officer and the Auditor General for
Scotland

Year ended 31 March 2014

21 August 2014

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

For the attention of the Accountable Officer
National Records of Scotland
Ladywell House
Ladywell Road
Edinburgh
EH12 7TF

21 August 2014

Dear Madam,

We are pleased to enclose our Annual Report to the Accountable Officer and the Auditor General for Scotland in respect of our audit for the year ended 31 March 2014. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance. We have assumed that the responsibility for governance has been discharged to the Accountable Officer by the National Records of Scotland Board.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit and Risk Committee in February 2014. We have subsequently reviewed our audit plan and concluded that we have updated our risk assessment as set out on page 4. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 21st August 2014.

We look forward to discussing our report with you on 21 August 2014. Attending the meeting from PwC will be Martin Pitt, Engagement Leader and Jennifer McKillop, Team Leader.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

<i>Section 1. Executive summary</i>	2
<i>Section 2: Significant audit and accounting matters</i>	3
<i>Section 3. Financial performance</i>	8
<i>Section 4. Governance and internal control</i>	10
<i>Section 5. Fraud</i>	13
<i>Section 6. Independence</i>	15
Appendix 1: Action plan	16
Appendix 2: Follow up of prior year findings	18
Appendix 3: Disclosure adjustments	20

Section 1. Executive summary

We set out in this report our significant findings from our audit of National Records of Scotland (NRS) for 2013/14, together with those matters which auditing standards require us to report to you as “those charged with governance”.

Scope, nature and extent of our audit

Management are responsible for ensuring that financial statements present a true and fair view and maintaining an appropriate internal control framework.

Our overall responsibility as external auditor for NRS is to undertake our audit in accordance with the Audit Scotland Code of Audit Practice. The Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector, involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the “appointed auditor” and the Auditor General for Scotland. Our audit has been planned and conducted to take account of these wider perspectives.

As a result of our work, we proposed a number of audit adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

Opinion

Subject to confirmation there are no post balance sheet events, and a signed letter of representation, we will issue an unqualified audit opinion following the Audit and Risk Committee meeting on 21 August 2014 including regularity of expenditure and income. Our opinion is unqualified in respect of the Remuneration Report (the section subject to audit) and of the consistency of the Strategic and Directors’ Report with the financial statements.

Significant auditing and accounting matters

In order to exercise our duties under the Code, we have highlighted significant auditing and accounting matters which require to be brought to your attention in Section 2, including the matters we are required to report under ISA 260.

We are also required to communicate with you regarding any significant deficiencies in internal control of which we are aware. Any weaknesses or risks identified are only those which have come to our attention during their normal audit work in accordance with the Code, and may not be all that exist. We have noted one item for consideration in relation to the control environment within NRS, details of which are set out in **Section 4**.

Acknowledgement

We would like to take this opportunity to thank the managers and staff within NRS for their assistance during the audit process.

Audit Scotland

Please note that final copies of this report will be sent to the Audit Scotland in accordance with their requirements.

Section 2: Significant audit and accounting matters

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan. We have included an additional risk not included in our audit plan and included the response below.

Matter arising	Audit response
<p><i>Fraud and management override of controls</i> ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>In any organisation, management may be in a position to override the financial controls that you have in place. The current economic conditions may also increase fraud risk.</p>	<p>We performed procedures to:</p> <ul style="list-style-type: none"> • test the appropriateness of journal entries; • review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • bring an element of ‘unpredictability’ into our work. <p><i>We did not identify any issues to report to you as a result of our work.</i></p>
<p><i>Recognition of income and expenditure</i> Under ISA (UK&I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition. There is a risk that NRS could adopt accounting policies or treat income transactions in such a way as to lead to material misstatement in the reported revenue position.</p> <p>Due to the majority of funding being received directly from Scottish Government we extend this presumption to the recognition of expenditure in respect of NRS.</p>	<p>We obtained an understanding of key revenue and expenditure controls.</p> <p>We evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (FRoM).</p> <p>We performed detailed testing of revenue and expenditure transactions, including deferred revenue, focussing on the areas of greatest risk.</p> <p>We reviewed significant accounting estimates and judgements for indicators of management bias.</p> <p><i>We did not identify any issues to report to you as a result of our work.</i></p>

Matter arising	Audit response
<p>Accounting treatment for intangible assets</p> <p>In our 2012/13 annual report we identified that management were amortising intangible assets over a period of 60 years, but resetting the net book value of the asset back to cost after each five year period had passed.</p> <p>It was agreed that this accounting policy was not consistent with the FReM or International Financial Reporting Standards (IFRSs) and therefore management agreed to undertake a review of this policy in the current year.</p>	<p>We have considered management's review of the accounting policy for intangible assets.</p> <p>We have reviewed the revised accounting policy for intangible assets to ensure it is consistent with relevant accounting standards.</p> <p>We have reviewed management's assumptions and estimates surrounding valuation of intangible assets.</p> <p>See Accounting estimates section below for our final conclusions drawn.</p>

Accounting estimates

We have identified the following significant accounting estimates in relation to the financial statements of NRS.

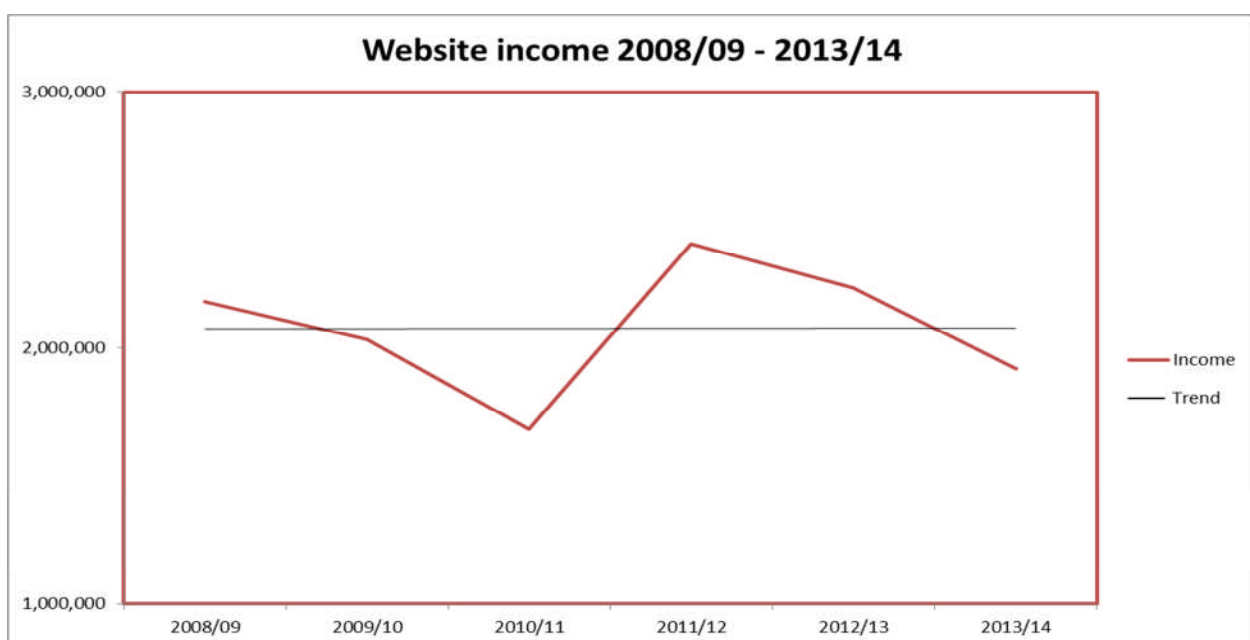
Valuation of fixed assets

NRS hold their portfolio of land and buildings at fair value, which are independently valued by GVA Grimley in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. At present freehold land and buildings are held at £12m (2012/13: 12m).

In both 2012/13 and 2013/14, Station Road has been classified as an asset held for sale, and at each point met all required criteria to be classified as such. In April 2014 the sale took place, realising £1m, and therefore the asset will feature as a disposal in the 2014/15 financial statements.

Valuation of intangible assets

NRS hold digitised website images of public records, which are accessible to the public through the Scotland's People website. The website generates an income stream from the charges paid by the public for access to the records. The table below demonstrates the income generated over the past six years:



Website images are currently held at the cost incurred in bringing them to their current state (to allow management to generate associated benefits) which constitutes the costs incurred in scanning the images. The asset has been awarded a useful life of 60 years (the period over which management have assessed that the asset will continue to generate income). Given that there is no open market for such an asset, and therefore no fair value, it is reasonable that the most suitable measurement base is amortised cost. The current value of the asset based on amortised cost is £7.3m.

During the 2012/13 audit process, we highlighted that NRS had not considered whether its website images may be impaired and recommended that management conduct an impairment review in 2013/14 to ensure that the asset is held at an appropriate value, consistent with accounting standards.

Management have conducted a review of the future discounted cash flows anticipated from the asset over its remaining 55 year life across a range of scenarios and have assessed that in all cases, the asset would not be impaired. Our sensitivity analysis has found that income would have to fall significantly for the present value of the future cash flows to fall below the asset's current amortised cost of £7.3m.

Given that the average increase in income over the past 6 years has been 0.45%, it is reasonable that management have concluded that the asset is not presently impaired.

Management should continue to review the useful life and the extent to which the website images may be impaired on an annual basis, as part of the accounts preparation process. Should circumstances change which impact key presumptions, management should ensure estimates are revised as appropriate.

Action 1

Misstatements and significant audit adjustments

We report to you all misstatements that we have found during the course of our audit, other than those of a trivial nature, which have not been corrected by management in the financial statements.

As a result of our work, we proposed a number of audit adjustments to the draft financial statements. There are no unadjusted misstatements at the conclusion of our audit, as these have been resolved and accepted by management.

Qualitative aspects of accounting practices

Financial statement disclosures

As part of our audit work we have reviewed, and tested, the material disclosures in the financial statements. We have identified the following changes to the disclosure requirements within the FReM required from 2013/14:

1. First time disclosure of a single remuneration figure within the remuneration report; and
2. Inclusion of a strategic report in addition to the existing director's report.

We can confirm that each of these additional items have been appropriately included in the 2013/14 Annual Report and financial statements.

Annual Governance Statement

As your external auditors, we are required to review the governance statement before publication and report as to whether the statement complies with relevant guidance, is misleading, or is inconsistent with other

information obtained during the audit. There is no set format for NRS' governance statement; however, the Scottish Public Finance Manual outlines the following essential features including: the governance framework of the organisation, an assessment of the organisation's risk management arrangement and details of any significant lapses in data security.

We do not consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of internal control or risk management arrangements. We have reviewed the governance statement and confirm that there are no matters to report.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

Whilst we have noted no matters to report in relation to the accounting and disclosure of related party transactions in respect of 2013/14 we have identified an area for improvement in relation to the process of identifying related party transactions.

At present there is a lack of formal process through which NRS search for related party transactions based on members' declarations of interests. In the current year, the prior year list of interests was used to search for current related party transactions. Whilst this did not lead to any omissions, it did lead to unnecessary searches taking place. There is also a lack of clarity over the type of parties NRS defines as related parties, and a lack of a defined materiality threshold over which transactions will be disclosed in the accounts.

Management should establish a formal process to be followed as part of annual accounts preparation to ensure that all related party transactions are captured. Management should define what would constitute a related party (in accordance with the Government Financial Reporting Manual) to NRS, and the materiality level applied to ensure that all relevant transactions are captured.

Action 2

Required communications on significant matters

The following table contains communication required under ISA 260 (revised and re-drafted) “Communication with those charged with governance”.

<i>Requirement</i>	<i>Delivery of requirement</i>
Uncorrected and corrected differences	There are no unadjusted differences to report to you. Several financial and disclosure points were identified, all of which have been adjusted for by management in the final financial statements and have been set out at Appendix 3 .
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Accountable Officer to represent to us that they have considered the accounting policies and that there have not been any material changes in the accounting principles and policies used during the year.
Significant qualitative aspects of accounting practices and financial reporting, management’s judgments and accounting estimates	We reviewed management’s judgements and accounting estimates in respect of land and buildings valuations, provisions for early retirement and accrued income and expenditure. We are satisfied with management’s methodology and use of experts in estimating the market value of land and buildings. We also identified no exceptions in our testing over accrued expenditure and provisions.
Deficiencies in the internal control environment	The purpose of our audit was to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We have identified one matter which we believe should be brought to your attention, details of which are set out at Section 4 .
Details of material uncertainties related to events and conditions that may cast significant doubt on NRS's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of NRS to continue as a going concern.
Significant difficulties encountered during the audit	Whilst we were able to obtain all of the information we required during the course of our audit, we did note a significant decrease in staffing levels within the finance team. As a result all of the financial statement process and collation tasks were the responsibility of a single individual. There is a risk that, should that individual leave the organisation, the full process would not continue to function. We have noted this matter in Section 4 .

Section 3. Financial performance

Financial performance 2013/14

	2013/14	2012/13
INCOME	£'000	£'000
Administration Income	(6,692)	(7,099)
EXPENDITURE		
Staff costs	13,851	13,766
Administration expenditure	12,157	13,756
	<u>26,008</u>	<u>27,522</u>
Net Operating Cost for the Year	<u>19,316</u>	<u>20,423</u>
Other comprehensive income	(499)	(135)
Total Comprehensive Expenditure for the Year	<u>18,817</u>	<u>20,288</u>

* As extracted from the 2013/14 Comprehensive Expenditure statement.

The reduction in income in the current year is largely attributable to the reducing income being generated from the public access of records (through both the Scotland's People Website and Centre) which has fallen by £290k (5%). Administration expenditure continues to decrease as activity levels associated with the census decline.

NRS' net resource outturn for 2013/14 was £19.316m against an allocated resource budget of £19.789m. The underspend of £473k (2012/13: 231k) arose from higher than budgeted income from fees and charges (£196k), and underspends in accommodation (£128k), depreciation (£70k) and staff costs (57k).

NRS also achieved efficiency savings of £626k (2012/13: £848k) which was equal to the Scottish Government Efficient Government savings target of 3% of total budget.

Capital expenditure in the year totalled £577k against a budget resource of £770k. Spend consisted of information technology software and hardware as part of NRS' ongoing IT amalgamation project. The overall capital underspend is attributable to slippage within the ICT and Accommodation projects.

Performance against budget 2013/14

	Budget 2013/14 £'000	Actual 2013/14 £'000	Variance £'000
Administration Income	(6,496)	(6,692)	(196)
Staff Costs	13,908	13,851	(57)
Administration Expenditure	12,377	12,157	(220)
Net operating cost	<u>19,789</u>	<u>19,316</u>	<u>(473)</u>

* As extracted from the 2013/14 Comprehensive Expenditure statement. Budget figures and variances are unaudited.

NRS has performed in line with its budget as set for 2013/14, with minor variances in income and expenditure. NRS have continued to conduct quarterly financial monitoring activities, through which significant variances against budget are investigated and remedial action taken where appropriate.

Financial sustainability – 2014/15 and beyond

NRS Budget 2014/15

	Budget 2014/15 £'000
Contracts Income/Fees and Charges	(7,200)
Rental Income	(300)
Total Income	(7,500)
Staff Costs	13,687
Goods and Services	9,252
Capital Charges	2,225
Grants	140
Total Expenditure	25,304

NRS continues to face challenges in 2014/15 due to reductions in Scottish Government funding, which have occurred since 2011/12. Key challenges include:

- Embedding the amalgamation of General Registers of Scotland and National Archives Scotland following their combination in 2011/12 remains a challenge and separate processes are still visible between the former entities. A programme of improvement and change has been ongoing since the amalgamation, aimed at developing a model of service delivery under a new framework.
- Costs associated with census outputs are falling, but there is a need in future years to plan for the delivery of the 2021 Census which will require funding and resource. In light of this, additional funding has received ministerial approval to support delivery of the 2021 Census and to progress a joint data-linkage programme with other public sector bodies.
- Income associated with fees and charges from access to public records has fallen in 2013/14 and is the most significant income stream, out with government funding, which supports the delivery of NRS' operations. In 2014/15 the contract for digital dissemination will be tendered with a focus on improved customer service. Income generation will continue to be a major consideration. The ICT amalgamation project continues to experience slippage in expenditure as project risks have materialised. Expenditure on the project will therefore continue into 2014/15.

Section 4. Governance and internal control

Governance structure

NRS is a Non Ministerial Department (NMD) of the Scottish Government, led by a Chief Executive who fulfils the role of Registrar Keeper and Keeper of the Records of Scotland, both of which are statutory roles. NRS are associated with the Scottish Government and are part of the Scottish Administration under Section 128(6) of the Scotland Act 1998.

The Chief Executive and Accountable Officer are responsible for ensuring that NRS fulfils the aims and objectives set by Scottish Ministers. The Management Board are responsible for advising the Chief Executive on the strategic and operational matters within NRS. The Management Board meet on a quarterly basis.

The Audit and Risk Committee are responsible for advising the Accountable Officer on matters of risk, governance and internal control. The Audit and Risk Committee are also responsible for overseeing work conducted by both internal and external audit. The Audit and Risk Committee meet on a quarterly basis.

Oversight of the day to day operations of NRS is the responsibility of the Senior Management Team. This is comprised of Senior Management from across the organisation and is chaired by the Chief Executive.

Our review of the operation of governance arrangements in 2013/14 noted no variations from that which is outlined above.

System of internal control

The Accountable Officer, in conjunction with management and the Audit Committee, is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

The significant matters that, in our professional judgement, we believe we should bring to your attention are set out in the table below:

Deficiency	Recommendation
<p>Due to the loss of key members of the finance team in the year, the team was understaffed throughout the year end. As a consequence the financial statement preparation process was the sole responsibility of one individual.</p> <p>Whilst there were no significant matters highlighted in relation to the financial statements, there is a high level of dependency on one member of staff, which may lead to business continuity issues. In addition there is a lack of segregation of duties or review in key financial processes as a result of the limited staffing levels.</p>	<p>Management should undertake a review of resourcing as soon as possible, and ensure that staffing is sufficient in terms of both time and skills.</p>

Action 3

Risk management

NRS has in place a formal risk management strategy, supported by a toolkit. The toolkit can be used by all levels of management to identify, assess and manage risk, both from an operational and strategic perspective.

NRS has in place a strategic risk register which rates risk according to the likelihood versus impact. The strategic risk register is reviewed by the Audit and Risk Committee and the Senior Management Team on a quarterly basis. Each risk has a designated owner and is tracked over time. Each risk has a target rating, which NRS has deemed as its tolerance in relation to the specific risk.

Operational risk registers are maintained at a divisional level, and are linked to operational objectives. These registers are reviewed by the relevant Programme Board on a quarterly basis and the Audit and Risk Committee on an annual basis.

Internal Audit

As described in our Annual Plan, International Standard on Auditing (UK and Ireland) 610: "Using the work of internal auditors" requires us to:

- Consider the activities of Internal Audit and the extent that their work can be relied upon for external audit procedures;
- Obtain sufficient understanding of internal audit activities and the effectiveness of the function to enable us to identify areas of risk and develop an effective and targeted audit approach; and
- Evaluate and test the quality and timeliness of internal audit work, where we seek to rely on the findings, in order to confirm its adequacy for our purposes.

In 2013/14 Internal Audit planned to perform work in the following areas:

- I.T. Security;
- Human Resources/Payroll;
- Public Records (Scotland) Act; and
- Budget Management Arrangements.

At the time of writing, internal audit reports for the above areas have not yet been finalised, and therefore were not available for our review.

Reliance on Scottish Government Systems

NRS uses SEAS, the Scottish Government financial ledger and a number of financial functions are performed by the Scottish Government on behalf of NRS, primarily in the areas of managing accounts payable, payroll and banking services. On an annual basis the Accountable Officer receives assurances from both the Director of Finance and the Director of Corporate Services at the Scottish Government. In addition, for the 2013/14 financial year, Audit Scotland, in its role of external auditor to the Scottish Government, produced third party assurance reports for certain financial and payroll services. The scope of these reviews and opinions issued by Audit Scotland are summarised below:

Scottish Government Financial Services Controls Report

Audit Scotland's report describes the control environment of the Scottish Government Financial Services, focusing on the SEAS accounting system and related services supplied by the Finance Directorate, covering the general ledger, accounts payable, accounts receivable, banking and non-current assets register.

Audit Scotland Opinion:

In our opinion, in all material respects:

- The description fairly presents the Scottish Government Financial Services system as designed and implemented throughout the period from 1 April 2013 to 31 March 2014
- The controls related to the control objectives stated in the description were suitably designed throughout the period from 1 April 2013 to 31 March 2014
- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 April 2013 to 31 March 2014.

Scottish Government Payroll Services Controls Report

Audit Scotland's report describes the control environment of the Scottish Government Payroll Service for the payment of salaries, fees and allowances; it also describes the arrangements for Travel Management Procedures and Staff Expense Claims.

Audit Scotland Opinion:

In our opinion, in all material respects:

- The description fairly presents the Scottish Government Payroll Service system as designed and implemented throughout the period from 1 April 2013 to 31 March 2014
- The controls related to the control objectives stated in the description were suitably designed throughout the period from 1 April 2013 to 31 March 2014
- The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 April 2013 to 31 March 2014 except for the key controls over the appropriateness of permanent and temporary changes to payroll as set out in the results of the audit testing.

Exceptions were noted in relation to permanent and temporary changes to payroll, recommendations and actions plans have been put in place to address these matters.

Section 5. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

**Why
commit
fraud?**

Opportunity

Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls

Rationalisation/attitude

Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Your views on fraud

In our audit plan presented to the Audit Committee on 14 February 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

We ask that the Audit and Risk Committee considers these questions again and lets us know if there is anything that has come to attention since the presentation of our audit plan of which we should be aware.

Prevention and detection of fraud

NRS have in place a local policy in place for the identification and reporting of fraud, this has been circulated to all staff members to remind them of their responsibilities in relation to the prevention and detection of fraud. All instances of known or suspected fraud should be reported to NRS' internal Fraud Response Co-ordinator, who will consider the best means by which to proceed.

The Scottish Government also have in place a whistleblowing policy and a Code of Conduct for all employees, both of which are utilised within NRS's approach to managing fraud risk.

Section 6. Independence

Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact our independence and objectivity of the audit team.

Other services provided to NRS

In addition to our audit under the Code of Audit Practice, the Firm has also provided tax services to NRS in 2013/14. We have implemented relevant safeguards to ensure that our independence remains uncompromised, the primary safeguard being the use of two distinct teams for the delivery of audit and tax services.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to NRS, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Appendix 1: Action plan

Finding

Accounting for intangible assets

In accordance with our recommendation within our 2012/13 annual audit report, management have conducted both an impairment and useful life review of their website images, classified as intangible assets. This review concluded that the useful life of 60 remains appropriate for the asset, and that the present value of the asset's future cash flows is not less than the current carrying value of the asset.

Recommendation:

Management should continue to review the useful life and the extent to which the website images may be impaired on an annual basis, as part of the accounts preparation process. Should circumstances change which impact key presumptions, management should ensure estimates are revised as appropriate.

Management response

Management will conduct an annual impairment and useful life review.

Timescale:

This review will be included in future year account timetables, the findings reported in the annual accounts and any appropriate action reflected in the asset register.

Process for identifying related party transactions

At present there is a lack of formal process through which NRS search for related party transactions based on members' declarations of interests. In the current year, the prior year list of interests was used to search for current related party transactions. Whilst this did not lead to any omissions, it did lead to unnecessary searches taking place. There is also a lack of clarity over the type of parties NRS defines as related parties, and a lack of a defined materiality threshold over which transactions will be disclosed in the accounts.

Recommendation:

Management should establish a formal process to be followed as part of annual accounts preparation to ensure that all related party transactions are captured. Management should define what would constitute related parties (in accordance with the Government Financial Reporting Manual) to NRS, and the materiality level applied to ensure that all relevant transactions are captured.

Board members submit their declaration of interest returns at the end of each calendar year. In future the documents will be copied to finance for earlier review than happened this year. Additionally, board members are asked if they have any conflicting interests with any of the subject matter at each meeting. This is a new requirement but Management are satisfied that progress has been made and processes reviewed.

Timescale:

The request for information goes out to Board members in December. Finance will ensure the returns are checked and any material transactions found duly reported.

Finance team resourcing

Due to the loss of key members of the finance team in the year, the team was understaffed throughout the year end. As a consequence the financial statement preparation process was the sole responsibility of one individual.

Whilst there were no significant matters highlighted in relation to the financial statements, there is a high level of dependency on one member of staff, which may lead to business continuity issues. In addition there is a lack of segregation of duties or review in key financial processes as a result of the limited staffing levels.

Recommendation:

Management should undertake a review of resourcing as soon as possible, and ensure that staffing is sufficient in terms of both time and skills.

Due to unforeseeable staff changes and staff shortages i.e. leave and illness, the accounts were managed this year by a skeleton staff. Recruiting is underway and a review of finance team responsibilities is on-going. The leave calendar has also been shaded to indicate the annual accounts process and external audit periods; this will ensure awareness of all affected staff.

Timescale:

Everything that can be done at this stage, has been carried out.

Appendix 2: Follow up of prior year findings

Original finding and response

Approval of manual journals

Management should ensure a robust process is in place to ensure all journals posted to the ledger are reviewed by an appropriate member of staff.

Management response: Following a review of the sample material provided by PWC, it was noted that in most cases journals were authorised by the requester and checked by the finance team, but finance staff checks had not been evidenced.

With immediate effect, appropriate procedures will be put in place to tighten up controls over the journal process.

Agreed owner: Jim Grady

Timetable: 30 September 2013

Accounting policy for tangible and intangible fixed assets

Management should consider the rationale of amortising website images over a period of 60 years given that these assets do not appear to have a foreseeable life. Management should review their policy of capitalising asset classes (outwith land and buildings) to ensure assets are classified appropriately and have the most appropriate lives.

Management response: In consideration to this finding we will undertake a review of capitalising asset classes (outwith land and buildings) and associated lives, seeking agreement in advance of PWC's 2013-14 Interim Audit

Agreed owner: Craig Stewart

Timetable: 31 December 2013

Status update

Completed

Management response: A revised process is in place for journals. All journals are prepared and passed to a senior member of the team for checking and signoff prior to posting. The naming convention has also been amended to easily identify journals in SEAS.

PwC response: We have observed that a revised policy is in place for authorisation of manual journals. Due to the timing of the journals sampled as part of the 2013/14 audit, we were unable to confirm that the process is operating effectively.

Completed

Management response: Management are satisfied with its review of website images and a wider review of assets identified and lives associated. There were no purchases of antiques and works of art during 2013-14 and management are content with what currently sits on the balance sheet. It's accepted that a more in-depth review of antiques and works of art and heritage assets may be required in 2014-15 by the NCAR manager, so to ensure consistency and to ensure that values held on the balance sheet stem from a reasonable basis.

PwC response: We have reviewed the policies in place and confirmed that management have reassessed and justified the useful lives and accounting policies applied. Management have undertaken a review in order to consider the extent to which website images are impaired and concluded based on clear assumptions that the current value at which they are held remains appropriate.

Original finding and response
IT Programme Board

Given the importance of the IT project and the costs involved, progress and associated costs should continue to be monitored by the Programme Board and reported to the Audit and Risk Committee. An analysis of the intended benefits against the actual benefits should be undertaken when the project has completed to identify any lessons learnt.

Management response: A key role of the ICT Project Board (PB) is to monitor activities, timescales and costs of this project. The Audit and Risk Committee (ARC) will continue to receive regular progress reports, with one of our ARC members continuing his advisory role at PB meetings.

A benefits analysis will be produced after this project is concluded.

Agreed owner: Anne Courtney

Timetable: TBC – Follow up in 31 December

Internal Audit report

Going forward, Internal Audit's report should be provided to Management earlier, ideally as soon as practical after the financial year end and completion of Internal Audit work.

Management response: The 2012-13 Audit Plan was not approved until midway through 2012-13. Internal Audit and NRS management have expressed a desire to finalise the 2013-14 Internal Audit Plan at an earlier point in the year, and NRS's ARC will also be supportive of this view.

The internal audit timetable runs from June to May and it's acknowledged that concluding the Internal Audit Annual Report is unlikely to be available at the time of PWC's final audit of NRS Accounts.

We will discuss this further with both PWC and IA to seek an agreeable arrangement.

Agreed owner: Craig Stewart

Timetable: 31 December 2013

Status update**Ongoing**

Management response: The Programme Board continues to monitor activities, timescales, risks and costs.

An external Gateway/Technical Assurance Review of the programme has been commissioned and is planned to be carried out in June 2014.

Benefits realisation analysis planning has commenced and is being monitored by the Programme Board.

PwC response: The Programme Board continues to meet to monitor progress against IT project objectives. The project has not yet reached completion stage.

Completed

Management response: It is envisaged that Internal Audit's opinion for 2013/14 will again be available in time for the ARC approving the AO's Governance Statement at the next ARC meeting in August 2014.

PwC response: The internal audit opinion will be received in advance of Audit and Risk Committee approval of the Governance Statement and cannot be provided earlier.

Appendix 3: Disclosure adjustments

All disclosure adjustments in the table below have been agreed and adjusted for by management.

<i>Area of accounts</i>	<i>Adjustment</i>
Cash flow statement	<p>Funding from Scottish Government was incorrectly presented as a cash outflow in current and prior year as opposed to a cash inflow. The net movement in cash each year however was correct.</p> <p>Action: Updated by management</p>
Accounting policies	<p>Requirement to include details of all accounting estimates and assumptions had not been met.</p> <p>Action: Updated by management</p>
Accounting policies	<p>Absence of an accounting policy for trade receivables and trade payables.</p> <p>Action: Updated by management</p>
Accounting policies	<p>Expansion required of accounting policy relating to assets held for sale, to confirm the requirements which must be met for an asset to fall into the category of held for sale.</p> <p>Action: Updated by management</p>
Remuneration report	<p>Median pay calculation contained errors which required correction. Additional disclosure lines required within the remuneration report.</p> <p>Action: Updated by management</p>
Note 7 – Property, plant and equipment	<p>Line relating to ‘indexation’ should be removed as is not consistent with the disclosure requirements under IFRS. Any indexation should be captured through the revaluation line.</p> <p>Action: Updated by management</p>
Note 13 – Operating leases	<p>Lease calculation was incorrectly calculated based on whole years as opposed to months and therefore the classification of timing of lease payments was incorrectly presented.</p> <p>Action: Updated by management</p>

