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

10 April 2018

Dear Steven

National Records of Scotland 2017-18 Audit - Review of internal controls

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.

Overall conclusion

2. 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 one less significant issue, as noted in paragraph 4, which we discussed with management so that appropriate action could be taken. As this is a minor issue, we have not raised this point in an action plan.

System coverage

3. The following table summarises the key systems that we have tested in our interim audit for financial year 2017/18.

Key system	Key controls tested
Payroll	<ul style="list-style-type: none">• Validation checks of employees on the payroll• Reconciliations with the general ledger• Budget monitoring of payroll costs
General Ledger	<ul style="list-style-type: none">• IT access controls• Journal authorisation• Changes to standing data
Trade Payables	<ul style="list-style-type: none">• Changes to supplier bank details• Aged creditors reporting• Authorisation and checks of purchase orders and purchase invoices• Credit card purchases• Budget monitoring of revenue expenditure
Trade Receivables	<ul style="list-style-type: none">• Changes to customer data• Aged debtors reporting• Authorisation and checks of debtors requests and sales invoices
Fixed Assets	<ul style="list-style-type: none">• Reconciliations with the general ledger• Budget monitoring of capital expenditure• Asset verification checks

Minor finding

4. **Asset verification:** The NRS finance team have completed a full verification check in 2017/18 of all their assets across the organisation. From this review, it is clear that NRS have a large number of historic items which have been identified as assets no longer in use and require disposal on the asset register. The vast majority of disposed items will have been fully depreciated over the years and therefore have a nil value. Therefore, this is not expected to have a material impact on the valuation of NRS' asset base. While this verification exercise has proved useful to update NRS' asset register, this evidences that budget holders are not discussing capital disposals and use of assets with the finance team on a regular basis. Disposing of assets no longer in use could be a potential source of income for NRS.

Management response: This was the first year that a full verification exercise took place. Going forward this exercise will be carried out annually. The finance team will raise this point at our regular budget meetings, to advise that departments should inform the finance team promptly when an asset is disposed.

Scottish Government shared systems

5. 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

6. Internal audit services at NRS are provided by the Scottish Government's Internal Audit Directorate (IAD). As the IAD are the internal auditors for a number of shared Central Government clients with Audit Scotland, each year we complete a review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). This review is currently being finalised by our Scottish Government external audit team for the 2017/18 financial year. We will report any relevant findings for NRS in our Annual Audit Report.
7. We have placed assurance on internal audit reports issued in 2017/18 for the purpose of reporting on the wider audit dimensions. However, as none of this year's internal audit reports relate directly to financial systems, we have not carried out any re-performance of their work, and not placed any reliance on internal audit for the purpose of our audit of the financial statements.

Follow up of prior year findings

8. We also followed up the issues reported to management in our 2016/17 management letter, to ensure that progress has been made in implementing the agreed actions.
9. We raised two matters in 2016/17. We are pleased to note that both points have been fully actioned. These matters are set out in the attached appendix for information.

Risk identification

10. The issues identified in 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 report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit from the NRS finance department is gratefully acknowledged.
12. Please do not hesitate to contact me on 0131-625-1929 or Jonny Steen on 0131-625-1703 if you have any specific queries.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Asif Haseeb', with a stylized flourish at the end.

Asif A Haseeb OBE
Engagement Leader

Cc (email): Angela Sim (NRS Accountant), Lynn Nevin (NRS Finance Manager)

Appendix: 2016/17 Action Plan

No.	Audit Finding	Planned Management Action (completed by National Records of Scotland)	Responsible Officer and Target Date	Audit update as at April 2018
General Ledger				
1	<p data-bbox="244 539 506 566">User access rights</p> <p data-bbox="244 603 1043 762">We tested a sample of user access rights to the SEAS general ledger system. We found that NRS are not fully complying with the Scottish Government (SG) System Access Policy as follows:</p> <ul data-bbox="286 783 1043 1305" style="list-style-type: none"> <li data-bbox="286 783 1043 895">• From a sample of five users, one user was found to have access to SEAS who did not have any finance responsibilities in their job role. <li data-bbox="286 922 1043 1082">• We found evidence that NRS staff had system access to wider SG functions as a result of transferring from another SG department. This is not required under their current job role. <li data-bbox="286 1102 1043 1305">• While we acknowledge that the Scottish Government SEAS team has ultimate responsibility over SEAS access controls, we believe it is best practice for NRS to periodically review the appropriateness of their staff's user access rights. <p data-bbox="244 1321 1043 1394">Risk: There is a risk that system access is not appropriate to job roles, resulting in financial information being inaccurately</p>	<p data-bbox="1059 523 1442 762">We agree with the recommendation that a periodic check of SEAS users should be carried out to confirm that access rights remain appropriate.</p>	<p data-bbox="1473 523 1711 592">Chief Finance Officer</p> <p data-bbox="1473 667 1711 735">Target date: August 2017</p>	<p data-bbox="1738 523 2130 635">We did not identify any issues this year from our review of SEAS users.</p> <p data-bbox="1738 655 2130 863">The finance team have now introduced an annual check to review SEAS user access rights. This check is considered good practice.</p> <p data-bbox="1738 900 1868 927">CLOSED.</p>

No.	Audit Finding	Planned Management Action (completed by National Records of Scotland)	Responsible Officer and Target Date	Audit update as at April 2018
	<p>recorded on the ledger.</p> <p>Recommendation: NRS should introduce a periodic check of access rights to key finance systems, to ensure appropriate system access is restricted to suitable staff.</p>			
Payroll				
2	<p>Payroll validation</p> <p>Payroll controls are shared with the Scottish Government HR/Payroll department, who administer payroll services on behalf of NRS. We reviewed the payroll controls in place at NRS. An expected key control is that a periodic check is carried out to ensure that all staff on the payroll are valid employees.</p> <p>The NRS finance team perform regular reasonableness checks of the staff listed on the monthly payroll reports sent from the Scottish Government. However, there is no formal record of a full validation check completed periodically to confirm the existence of all NRS staff on the payroll.</p> <p>Risk: There is a risk that not all employees on the payroll are valid, resulting in additional staff costs.</p> <p>Recommendation: A more formal procedure should be implemented on a periodic basis to validate all employees on the payroll.</p>	<p>As part of our monthly payroll controls, the transactions output by the payroll system are fully reconciled to the balances on SEAS. In addition, the monthly process includes a cross check between the individuals on the payroll system and the detailed workforce plan, validating the employees on the payroll.</p> <p>However, we accept that not all elements of these controls are fully documented and we will review our procedures to ensure that we can evidence the checks performed.</p>	<p>Chief Finance Officer</p> <p>Target date: August 2017</p>	<p>The monthly payroll checks completed by the finance team now document the validation check between NRS' workforce plan and payroll information received from the Scottish Government.</p> <p>CLOSED.</p>