

# National Records of Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

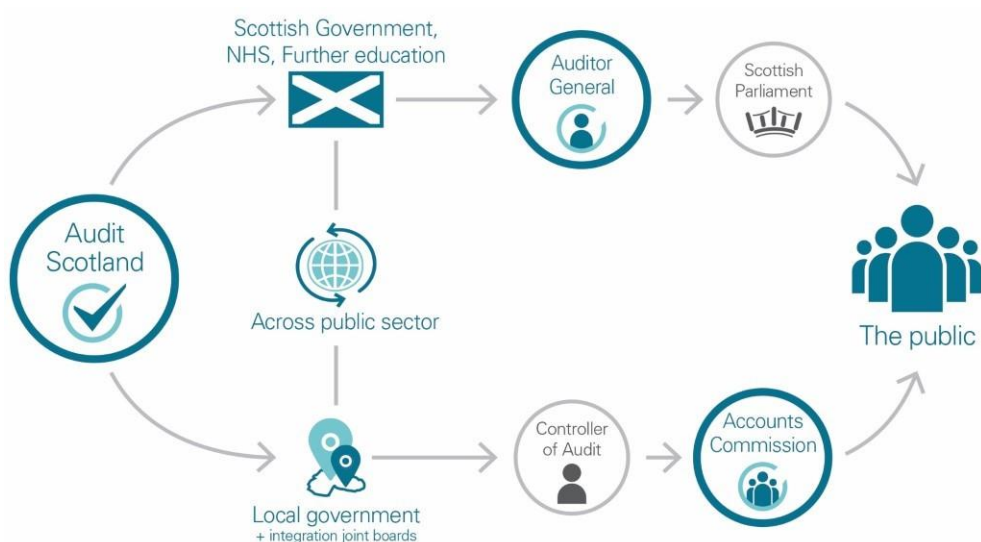
Prepared for National Records of Scotland

March 2021

## 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

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**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. The plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector 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.

**3.** The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


**5.** We aim to add value to National Records of Scotland (also 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

**6.** 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 NRS. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></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"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates and accounting policies.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in income and expenditure recognition</b></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>	<ul style="list-style-type: none"> <li>• Analytical procedures on income and expenditure streams.</li> <li>• Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the categorisation, measurement and valuation of the account areas of non-current assets and accruals. The 2019/20 audited accounts disclosed that the valuation report on NRS' assets, in common with many other bodies, contained a 'material valuation uncertainty' clause regarding the impact of Covid-19 as less certainty could be attached to the valuations than would normally be the case, due to uncertainty in the market.</p> <p>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 &amp; Risk Committee.</p> <p>Review of technical guidance when preparing the NRS Annual Report and Accounts.</p>	<ul style="list-style-type: none"> <li>• Focused substantive testing during the financial statements audit of key judgemental areas.</li> <li>• Review of accounting policies to ensure these are reasonable and comply with the Financial Reporting Manual (FReM).</li> <li>• Review material asset classifications for accuracy and ensure valuations recommended by the external valuer are reasonable.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<b>Wider dimension risks</b>		
<p><b>4 Census</b></p> <p>The Scottish Ministers, in consultation with NRS, announced on in July 2020 that the Census will be delayed from March 2021 to March 2022. This has significant implications on NRS' finances and budget planning, agreement of supplier contracts, staffing arrangements and governance of the programme, with additional costs of £21.6 million expected because of the delay.</p> <p>There are vacancies within senior census management positions as well as a high number of contractors being used during the programme.</p>	<p>The Census Programme Board meet monthly to discuss key issues and a finance paper is presented for discussion.</p> <p>The finance team have dedicated resources to assist with Census finances and budget monitoring.</p>	<ul style="list-style-type: none"> <li>• Ongoing review of finance reports and Census Programme Board papers.</li> <li>• Continue to liaise closely with finance officers and senior management regarding budget pressures.</li> <li>• Review finance plans and NRS' progress with their savings programme.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**7.** 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](http://www.audit-scotland.gov.uk).

**8.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to relevant officers to confirm factual accuracy.

**9.** We will provide an independent auditor's report to National Records of Scotland, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Annual Report and Accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**10.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

## Exhibit 2 2020/21 Audit outputs

<b>Audit Output</b>	<b>Latest target date</b>	<b>Audit &amp; Risk Committee Date**</b>
Annual Audit Plan	31 March 2021	31 March 2021
Annual Audit Report	31 October 2021*	2 September 2021
Independent Auditor's Report	31 October 2021*	2 September 2021

\*Target date for submission of outputs per planning guidance. Outputs are expected to be ready for the Audit & Risk Committee meeting on 2 September.

\*\*The impact of lockdown restrictions on the capacity of the audit team and NRS' finance team will be kept under review. As a result, target dates may be subject to change and if so, the audit & risk committee will be kept informed.

Source: Audit Scotland

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## Audit fee

**11.** The audit fee for the 2020/21 audit of NRS is £68,180 (2019/20: £66,530). In determining the audit fee we have taken account of the risk exposure of NRS, the planned management assurances in place and the level of the work of internal audit. Our audit approach assumes receipt of the unaudited Annual Report and Accounts, with a complete working papers package on 28 June 2021.

**12.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited Annual Report and Accounts or being unable to take planned reliance 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

**13.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**14.** The audit of the Annual Report and Accounts does not relieve management or the Audit & Risk Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**15.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**16.** Auditors in the public sector give an independent opinion on the financial statements and other information within the Annual Report and Accounts. We also review and report on the arrangements within 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

**17.** The Annual Report and Accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of National Records of Scotland and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how National Records of Scotland will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view of the state of affairs of the National Records of Scotland as at 31 March 2021 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the Annual Report and Accounts

**19.** 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.

**20.** 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.

## Materiality

**21.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

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



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – 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 expenditure for the year ended 31 March 2021 based on the latest finance report available.	£644,000
<b>Performance materiality</b> – 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 65% of planning materiality.	£419,000
<b>Reporting threshold (i.e., clearly trivial)</b> – 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 2% of planning materiality (rounded up).	£15,000



Source: Audit Scotland

## Timetable

**23.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited 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	28 June 2021
Latest date for final clearance meeting with Chief Financial Officer	19 July 2021
Agreement of audited, unsigned Annual Report and Accounts	30 July 2021
Issue of Annual Audit Report to those charged with governance including Letter of Representation	23 August 2021
Consideration of the Annual Report and Accounts by the Audit & Risk Committee	2 September 2021
Independent auditor's report signed	3 September 2021

\*The impact of lockdown restrictions on the capacity of the audit team and NRS' finance team will be kept under review. As a result, target dates may be subject to change and if so, the audit & risk committee will be kept informed.

Source: Audit Scotland

## Internal audit

**24.** 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 2021. We will report any significant findings to management in our Annual Audit Report.

**25.** As part of our planning process we review internal audit reports and findings for NRS which may impact on our audit approach, including our wider audit dimensions work. For 2020/21 we intend to consider the findings of internal audit's report on Income and Electronic Payment Card Usage as part of our audit work.

## Audit dimensions

**26.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

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### Financial sustainability

**27.** 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.

### Financial management

**28.** 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 systems 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.

**29.** The Chief Finance Officer (CFO) left in January 2021 and is due to be replaced. This is an important post, responsible for providing financial updates to the board and ensuring appropriate financial controls are in place. Other senior finance staff have remained in post and a new CFO is being recruited, so this should not have a significant impact. However we will review the arrangements in place and comment in our Annual Audit Report as required.

**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 2020/21 or 2021/22 Annual Audit Reports. We had originally planned to complete this work during 2019/20, however it was delayed due to the Covid-19 pandemic. We agreed with 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
- 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.

**32.** In response to the Covid-19 pandemic, NRS' Incident Management Team have dealt with a range of business continuity issues, including use of online communication with its staff, continuing services online where possible and implementing a range of changes to the registration system. Changes to governance oversight included using teleconferences to ensure Board and Committee meetings can take place remotely. NRS adapted its working practises, with home working significantly expanded and online applications utilised to allow staff to continue to work and communicate. NRS will continue to manage the re-opening of its services and buildings in line with Scottish Government advice and guidelines. We will continue to monitor governance arrangements and report on them in our Annual Audit Report.

### Value for money

**33.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether (the body) 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

**34.** 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.

## Independence and objectivity

**35.** Auditors appointed by the Accounts Commission or Auditor General 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 OBE. 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 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.

# National Records of Scotland

## Annual Audit Plan 2020/21

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](mailto:info@audit-scotland.gov.uk)

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