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# ***National Records of Scotland***

Annual Report to Those Charged  
with Governance and the Auditor  
General for Scotland

Year ended 31 March 2016

August 2016



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PricewaterhouseCoopers  
141 Bothwell Street  
Glasgow  
G2 7EQ

For the attention of the Accountable Officer and Audit and Risk Committee,  
National Records of Scotland,  
Ladywell House,  
Ladywell Road  
Edinburgh  
EH12 7TF

August 2016

Ladies and Gentleman,

We are pleased to enclose our Annual report to the Accountable Officer, Audit and Risk Committee and the Auditor General for Scotland in respect of our audit for the year ended 31 March 2016. 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, (as advised by the Audit and Risk Committee).

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in February 2015. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 22 September 2016. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are completion of subsequent events review and receipt of the signed letter of representation from Management. We will provide an oral update on these matters at the meeting on 22 September 2016.

We look forward to discussing our report with you. Attending the meeting from PwC will be Martin Pitt and Gillian Collin.

Yours faithfully

PricewaterhouseCoopers LLP

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# Section 1. Executive summary

## Introduction

We set out in this report our significant findings from our audit of the National Records of Scotland (“NRS”) for 2015/16, together with those matters which auditing standards require us to report to you as “those charged with governance” of NRS.

We carried out our audit work in line with our 2015/16 audit plan that we presented to you on 11 February 2015. Our audit is not designed to identify all matters that may be relevant to you. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing (‘ISAs’) (UK and Ireland)) and the Code of Audit Practice (‘the Code’).

The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors. We have conducted our audit in accordance with the relevant requirements of the Code.

## Respective Responsibilities of Management and Auditors

### *Management*

It is the responsibility of the Accountable Officer to prepare the financial statements and ensure that they present a true and fair view, and to maintain an appropriate internal control framework

It is the responsibility of NRS management to prepare the financial statements in compliance with statutory and other relevant requirements, including the Government Financial Reporting Manual (FRoM) 2015-16. This means:

- Acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure the financial transactions are in accordance with the appropriate records;
- Maintaining proper accounting records;
- Preparing financial statements on a timely basis which give a true and fair view of the financial position of NRS and its income and expenditure for the year ending 31 March 2016; and
- Preparing a Governance Statement and a Remuneration Report.

### *Auditors’ responsibilities*

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the entity and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;

- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We are also required to review and report as necessary on other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

## Financial Statements

Overall the statements were presented to a high standard. We proposed only minor disclosure 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.

## Financial performance

The key financial performance for NRS can be summarised as follows.

Total incoming resources from administration income for 2015/16 were £6.143m, a decrease of £0.129m (2.1%) compared to the prior year. The decrease can mainly be attributed to a decrease in fees and charges income received from external customers to the Scotland's People Centre, in person and via the website.

Net operating costs for 2015/16 increased to £19.636m, a slight increase of £0.173m from 2014/15. Whilst overall operating costs have remained fairly static, there were noticeable offsetting movements such as an increase in supplies & services with savings in both direct and temporary staff costs.

NRS received £21.150m of agency funding from the Scottish Government in 2015/16. This is an increase of £2.747m on the prior year. Total Comprehensive Expenditure for the year was £19.363m representing an underspend of £1.514m compared to budgeted expenditure.

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

We would like to thank the management and staff of NRS for their co-operation and assistance during the course of our work.

## 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:

Matter arising	Audit response
<p><b><i>Fraud and management override of controls</i></b></p> <p>ISA (UK&amp;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. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>We performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Reviewed management’s overall fraud arrangements and policies;</li> <li>• Reviewed accounting estimates for bias, including the determination of the useful lives attributed to website images (intangible assets) and considered the impairment exercise carried out by management to identify any indicators of impairment;</li> <li>• Performed detailed testing over a sample of income and expenditure transactions and their commercial business rationale;</li> <li>• Tested manual journals to ensure their ‘legitimacy’; and</li> <li>• Performed ‘unpredictable’ procedures throughout the audit in the following areas:               <ol style="list-style-type: none"> <li>1. Payroll Testing Tested immaterial balance for Agency Temp costs; and</li> <li>2. Accounts Receivable Confirmations Additional confirmations were sent to external third parties to confirm the balance at year end.</li> </ol> </li> </ul> <p><b><i>Our testing did not identify any issues to bring to your attention.</i></b></p>
<p><b><i>Recognition of income</i></b></p> <p>Under ISA (UK&amp;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>We have rebutted this risk for contract income, as this income is standardised in nature and received in</p>	<p>We obtained an understanding of key revenue controls and evaluated and tested the accounting policies for income recognition to ensure consistency with the requirements of the Financial Reporting Manual (FRoM).</p> <p>We performed detailed testing over revenue from fees and charges by performing targeted testing of income from the Scotland’s People website, and</p>

Matter arising	Audit response
<p>periodic block payments. There is also a low risk of manipulation of this income, as it can be directly agreed to contracts.</p>	<p>testing a sample of contract and fees and charges income.</p> <p>We also performed detailed testing of significant revenue and transactions around the year end, to address the potential risk of an overstatement of revenue. A sample of invoices raised in the month pre and post year end were reviewed to confirm that income was recorded in the correct financial year.</p> <p><b><i>Our testing did not identify any issues to bring to your attention.</i></b></p>
<p><b><i>Recognition of expenditure</i></b></p> <p>Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there are risks of fraud in revenue recognition.</p> <p>We have extended this presumption to the recognition of expenditure in the public sector, as there is a greater risk associated with the recognition of expenditure in NRS, owing to the fact that it is largely funded on the basis of its ongoing resource requirements as a public sector entity.</p> <p>This risk has been assessed as being significant for accommodation and supplies and services expenditure.</p>	<p>We obtained an understanding of key expenditure controls and evaluated and tested the accounting policies for expenditure recognition to ensure consistency with the requirements of the Financial Reporting Manual (FReM).</p> <p>We performed detailed testing over a sample of expenditure transactions, focussing on accommodation and supplies and services expenditure.</p> <p>We performed a search for unrecorded liabilities to identify any liabilities relating to 2015/16 which had not been included within the financial statements.</p> <p><b><i>We did not identify any issues to report to you as a result of this work.</i></b></p>

## Materiality

We have conducted our work in accordance with the materiality levels detailed below.

	£
<b>Overall materiality</b> – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	<b>£515,580</b>
<b>Performance materiality</b> - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	<b>£386,685</b>
<b>De-minimis posting level</b> - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a ‘de-minimis’ or ‘clearly trifling’ amount	<b>£25,779</b>

## Misstatements and significant audit adjustments

There are no uncorrected misstatements arising from our audit to report to you.



## **Key Matters**

### **Background and current year impairment assessment**

NRS hold digitised website images of records including birth, death and marriage records, as well as parish records which are made available to the public via the Scotland's People Website and at physical locations in Scotland. These have been created in order to preserve historical archives, as well as to ensure that they are more accessible to user groups and customers. These website images generate an income stream from the charges which are paid by members of the public to access them.

The website images are currently held at the cost of bringing them to their current (digital) state and are amortised over the perceived useful lives of the images. Management have estimated that the images will generate income for 60 years from the date they were capitalised. This is deemed to be a reasonable estimate based on the expected discounted cash flow generated by them.

In the year, management performed a review of website images and confirmed that the approach to hold them at historic cost net of amortisation is appropriate in line with IAS38. We concur with this treatment.

Management have also performed a review of the future discounted cash flows for these assets, anticipated over the remaining 53 years and concluded that there were no indicators of impairment. We have completed a sensitivity analysis over this data, and noted that income would have to fall in excess of 23% for an impairment to be recognised within the financial statements.

We, therefore, believe that management's assessment that no impairment has occurred is reasonable.

### **Scotland's People Website**

A new contract was agreed during 2015/16 with a new provider in relation to the Scotland's People Website to run and manage the new website going forward. A flat fee will be paid to the new provider, a change from the previous income sharing arrangement that was in place. It is also planned to allow visitors to search indexes for free with payment only required to download / view documents.

## **Qualitative aspects of accounting practices**

### **Financial statement disclosures**

We reviewed the material disclosures in the financial statements. While we identified some adjustments within the disclosures required in the financial statements which were addressed by Management, no significant issues were identified as part of this work.

### **Governance Statement**

The Financial Reporting Manual requires the Accountable Officer to sign a Governance Statement which covers all controls including financial, operational, compliance and the management of risk.

We reviewed the governance statement and considered the following:

- Compliance with the required elements as published by the Scottish Public Finance Manual; and
- Consistency with the remainder of information presented within the annual accounts and our overarching understanding of the entity.

We reviewed the governance certifications from the relevant business leads within NRS which were provided to the Accountable Officer at the year end.

Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

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## ***Other Matters***

### **IT Cyber Attacks**

NRS had an IT incident in March where a virus affected one of their Scottish Family History systems. The virus was quickly contained but part of the network impacted was closed as a precaution. The NRS IT and Security teams worked closely with SG Cyber Security and Police Scotland Cybercrime Unit. The virus encrypted work files on one file server and contaminated one staff desktop but the file was restored successfully from backups held. No personal or sensitive information was lost and normal service was resumed 3 days later.

### **Census 2021**

Work on preparing for the 2021 Census continued to increase during 2015/16 and a full time budget manager has been assigned to manage costs. Budgeted costs are currently estimated to be in the region of £110m over the next seven to eight years, which is almost double the £65m spent on the last Census in 2011.

The intention is that the 2021 Census will utilise digital programs which will automatically scan and read returns with the estimation being that around 80% of the work will be performed digitally.

## Section 3. Financial performance

### Financial targets

**Table 1: Financial performance summary 2015/16**

	<b>Outturn £ 000</b>	<b>Budget £ 000</b>	<b>Variance £ 000</b>
Income – Contract Income	977	930	67
Income – Fees and Charges	4,836	6,290	(1,454)
Income – Rental Income	310	280	(30)
<b>Total Admin Income</b>	<b>6,143</b>	<b>7,500</b>	<b>(1,357)</b>
Expenditure – Staff Costs	13,370	14,823	1,453
Expenditure – Admin	12,409	13,827	1,418
<b>Total Expenditure</b>	<b>25,779</b>	<b>28,650</b>	<b>2,871</b>
<b>Net Operating Costs for the Year</b>	<b>19,636</b>	<b>21,150</b>	<b>1,514</b>

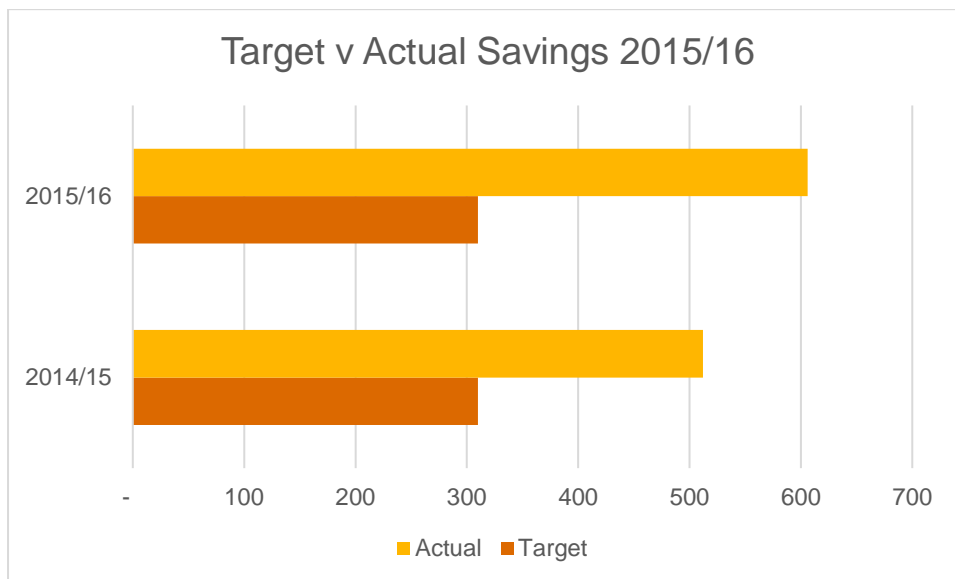
The results for the year record a Net Resource Outturn of £19.636m (2014/15: £19.463m) compared to the Resource Budget of £21.150m, an underspend of £1.514m.

The key items to note in terms of variances are:

- The reduction from fees and charges income which had been budgeted for, generated from Scotland's People Website and NRS physical visitor locations.
- Reduction in staff costs largely due to the number of exit packages agreed in the prior year.
- A variance of £0.833m in the depreciation expense charge in the year (non-cash) compared to the budgeted figure of £2.165m.

In 2015/16, NRS had an efficiency savings target of £0.31m, which NRS exceeded with total savings of £0.606m compared to prior year savings of £0.521k against the same efficiency target.

As shown in the graph below, NRS have achieved their efficiency savings targets for the last two years.

**Table 1: Target v Actual Efficiency Savings 2015/16 and 2014/15**

It was noted that the Scottish Government no longer requires formal efficiency savings reporting, however NRS continue to track these using the existing framework and work is ongoing to set a revised target for 16/17.

## Financial sustainability

Financial sustainability continues to be a key area of focus given the financial pressures public sector bodies are experiencing. NRS have had in place from 2012 a ten year outlook, however, detailed budgeting is performed for between one and three year's ahead depending on the formal spending review cycles.

The Financial Plan for 2016/17 identifies the following key areas of income and expenditure:

**Table 2: 2016/17 Financial Plan**

NRS	2016/17 Planned Budget £ 000
Income – Fees and Charges	5,480
Income – Rental Income	320
<b>Total Self-Generated Income</b>	<b>5,800</b>
Expenditure – Staff Costs	15,627
Expenditure – Goods and Services	13,278
Expenditure – Capital Charges	2,225
Expenditure – Grants	140
<b>Total Expenditure</b>	<b>31,270</b>
<b>Net Operating Costs (Excluding capital)</b>	<b>25,470</b>

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NRS receive agency funding from the Scottish Government each year. For 2016/17, this is expected to be £25.470m (excluding capital agency funding). This will leave a £1.3m deficit between total income and expenditure, which will be met through savings and generation of additional income.

## 2016/17 and beyond

### *Cost pressures and efficiencies*

NRS's Strategy 2012-2022 provides a vision for the first ten years of NRS' existence, following the merger of the General Register Office for Scotland and the National Archives of Scotland in 2011. NRS has five key strategic objectives, which have been designed in line with the key themes of the organisation, and are aligned within the Strategy to the Scottish Government National Outcomes.

NRS is currently in the process of developing their financial strategy for 2016/17 onwards, which will take account of the findings from the on-going income review and how the NRS intend to deliver against the Scottish Government's efficiency savings target.

### *NRS Corporate Strategy (June 2016)*

In June 2016, a corporate strategy which includes key elements the organisation is striving to achieve was developed and was based on the following areas:

- a) Understanding who the customers are
- b) Understanding what they want and why
- c) Understanding what modern service delivery model(s) will meet their expectations
- d) Understanding the information which NRS hold across the business and how the information relates
- e) Improve and protect the information governance
- f) Using the information NRS hold to improve outcomes

### *NRS Digital Strategy (March 2016)*

In March 2016, a digital strategy, which sets out the digital aims, objectives and action plan for NRS up to 2022 and describes how the organisation will interface with the Scottish Government's National Digital Strategy

# *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 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 and continue to meet on a quarterly basis. The current Accountable Officer took up post in April 2015, following the retirement of the previous Accountable Officer in April 2015.

In 2014/15, NRS revised their Management Board Structure replacing the existing Senior Management Team (SMT) with two new groups – the Business Leadership Group and Corporate Leadership Group. These, along with the Audit and Risk Committee sit below the Management Board. The Management Board consists of 11 members and acts as an advisory Board to those Groups and Committees which sit below it:

- The Audit and Risk Committee is responsible for advising the Accountable Officer on matters of risk, governance and internal control and meet on a quarterly basis. The Audit and Risk Committee is also responsible for overseeing work conducted by both internal and external audit.
- The Business Leadership Group of 9 members is responsible for oversight of the day to day management of NRS, and meet every quarter. The key business decisions which are made within NRS are discussed and agreed within these meetings
- The Corporate Leadership Group consists of 4 members who focus on the strategic direction of NRS, in particular implementation of the Management Board decisions and overseeing the transformation of the organisation. This group is chaired by the Chief Executive and meets on a monthly basis.

From our review of the operation of governance arrangements in 2015/16 we consider that the governance arrangements in place have operated effectively and are continuing to evolve to meet the organisation's requirements.

## **System of internal control**

The Accountable Officer, in conjunction with management and the Audit and Risk 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 reviewed 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.

We noted a number of findings during our planning and year-end audit work to bring to your attention. These are set out in Appendix One. The follow up of prior year findings is shown within Appendix Two.

Based on our work performed we consider the systems of internal control to be adequate.

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## Risk management

NRS has an established risk management strategy within the organisation, supported by a toolkit which can be used by all levels of management to identify, assess and manage risks. NRS continue to maintain their strategic risk register, which is reviewed by the Audit and Risk Committee on a quarterly basis. Each of the assessed risks has a designated owner, and is tracked over time. For each of the risks identified, there is a target rating, which shows the tolerance which NRS has deemed appropriate in relation to that risk.

In addition, there are operational risk registers in place at a divisional level, which are related directly to the operational objectives. These registers are reviewed throughout the year by NRS, and on a formal basis annually by the Audit and Risk Committee.

The key risks which are identified within NRS are:

- Failure to protect sensitive data;
- Contraction of Scottish Government Funding; and
- Reduction of Income from public services due to the economic climate.

NRS have identified a number of actions to mitigate against these risks. These risks continue to be the most important to the organisation given the heightened focus on IT after the recent cyber-attacks and the increasing digitisation of records against a background of increased pressure on public funding.

## 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.

NRS’ internal audit services are provided by the Scottish Government in house function, who perform a programme of work in line with an agreed audit plan.

In 2015/16, Internal Audit planned to perform work on the following areas:

- Contract Management Arrangements;
- Risk and Governance Arrangements; and
- ITSOL Programme.

Although we have not formally placed reliance on internal audit’s work for the purposes of our audit, we have no reason to consider that the internal audit arrangements are not appropriate for the needs of the organisation.

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## 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 2015/16 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 2015 to 31 March 2016
- The controls related to the control objectives stated in the description were suitably designed throughout the period from 1 April 2015 to 31 March 2016
- 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 2015 to 31 March 2016.

### ***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 2015 to 31 March 2016
- The controls related to the control objectives stated in the description were suitably designed throughout the period from 1 April 2015 to 31 March 2016
- 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 2015 to 31 March 2016, except for those controls over payroll amendments and the travel booking process which did not operate effectively throughout the period.



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## Workforce planning

In November 2013 Audit Scotland published their report “*Scotland’s Public Sector Workforce*” which made recommendations in the following key areas of workforce planning:

- Develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content and which are scrutinised and monitored by senior managers and boards or elected members;
- Assess the impact of different terms and conditions on the likely costs and uptake of their schemes before they put a scheme in place;
- Collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members;
- Forecast expected staff numbers, skill needs and costs on a rolling three year basis, using scenario planning where necessary; and
- Make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces.

In accordance with our responsibilities as your appointed auditor, we have completed the follow-up questionnaire and submitted this to Audit Scotland. We noted that management information is provided as part of the quarterly meeting of the management board and business leadership board. Ongoing savings from unfilled posts and pressures arising from changes to staffing are also reported to the Workforce Management Group on a monthly basis and, as part of the budget updates to Management Board and Business Leadership Group.

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## ***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 and management 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.

### **Prevention and detection of fraud and corruption**

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. As part of our external audit, we have reviewed NRS's high level arrangements for preventing and detecting instances of fraud and corruption. There are no matters we wish to bring to your attention concerning fraud.

NRS's internal control environment is designed to prevent and detect instances of fraud, specifically through published anti-fraud policies and procedures, segregation of duties and authorisation processes.

All instances of suspected fraud are investigated by the Fraud Response Co-Ordinator, who will assess the risk of the fraud and record the issue, consulting with other sources regarding the allegations and calling a meeting of the Fraud Response Group when required.

A fraud hot-line is in place and staff can also report information via e-mail to a specific inbox, or through written communications. There is now a formal fraud policy, fraud response plan, a formal fraud policy statement and counter fraud guidance in place.

A theft of camera equipment (valued at £5k) was identified in the year highlighting the need for tighter controls around physical assets. This is an area management are developing and an Asset Management Group was also formed in the year with a supporting asset management policy being developed to protect the organisation against the physical loss of assets. The initial focus being to understand the current position with asset management across the business and how this reflects against the new policy.

To do that the group will engage with each business area within NRS to:

- raise awareness of the new policy (supported by Connect article);
- understand existing asset management controls;
- understand existing vulnerabilities and how they are managed;

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Based on audit work performed we consider that the controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Board.

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## ***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.

### **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 One: Current Year Finding

Deficiency	Recommendation	Management Response
It was noted that there was a theft of cameras in the current year and through inspection of internal control statements from business leaders, there is a theme that the management and security of physical asset could be improved upon.	Management should continue to improve upon the existing processes and procedures and implement controls such as physical stock counts on a regular basis to ensure all assets, which are owned by NRS, are physically verified regularly.	<b>Responsible Officer:</b> Penni Rocks <b>Timescale:</b> March 2017
We noted there has been some turnover of finance staff during the year. Whilst no delays were experienced throughout our audit, we discussed with management that it would be beneficial to continue to develop appropriate training and policy / procedure documents for new (and existing) members of Finance staff are in place to avoid any loss of knowledge. We acknowledge the steps taken by the finance team to date and that a number of policy/guidance documents are in place.	Management should continue work to ensure that sufficient training and procedure documents are in place to ensure knowledge if not lost if members of the finance team leave the organisation.	<b>Responsible Officer:</b> Penni Rocks <b>Timescale:</b> March 2017
It was identified that NRS' Efficiency Savings Target for 2015/16 was the same as in prior years. Although an annual efficiency savings target is no longer required to be agreed with the Scottish Government, management should review required efficiency savings each year during the budget setting process to address any budget gaps.	Management should review and agree the level of required efficiency savings annually as part of the budget setting process.	<b>Responsible Officer:</b> Penni Rocks <b>Timescale:</b> March 2017

# Appendix Two: Follow up of Prior Year Findings

Deficiency	Recommendation	Status Update
<p><b>List of Services which are chargeable for VAT</b></p> <p>There is currently not a comprehensive listing of all chargeable services, and no central check within finance to ensure that VAT on invoices is treated correctly.</p>	<p>The listing of chargeable services on the NRS intranet should be updated to include all services provided by the entity.</p> <p>Finance should perform a sense check of invoices to ensure that the VAT treatment is in line with this listing of chargeable services. This will assist in ensuring that the year-end VAT return is accurate</p>	<p><b>Implemented</b></p> <p>NRS have produced a VAT guidance document which has been disseminated to all staff members. The document includes an FAQ section and provides contact information if they have any further queries.</p>
<p><b>Authorised Signatory List for Invoice Requests</b></p> <p>Whilst Finance do perform a sense check on who is authorising invoice requests, there is no listing held of individuals who are authorised to do this task.</p>	<p>A list of individuals who are authorised to approve invoice requests should be created, with finance confirming that those approving invoices are on this list.</p>	<p><b>Implemented</b></p> <p>A list of individuals authorised to approve invoice requests depending on amounts and business areas has been created.</p>
<p><b>Fixed Asset Verification</b></p> <p>There is currently no process by which the Finance Team can verify the existence and condition of the fixed assets.</p>	<p>A programme of verification of fixed assets should be designed and implemented.</p>	<p><b>Implemented</b></p> <p>A fixed asset verification exercise was conducted in 2015/16.</p> <p>(Note: control weakness raised in current year).</p>
<p><b>Reconciliation of Brightsolid Income</b></p> <p>Currently there is not a formal process completed on a regular basis to reconcile the Brightsolid Income to the system. This reconciliation can be completed, however there is not a set timescale for completing these.</p>	<p>The reconciliation of Brightsolid income to the system should be performed on a monthly basis. This should include reconciling the income received to the sales invoice and the remittance advice to the system.</p>	<p><b>Implemented</b></p> <p>Prior to the contract expiring in August 2016, the finance team introduced some improvements on income reconciliation.</p>
<p><b>Related Parties</b></p> <p>A new related party form was created in 2014/15 to capture the</p>	<p>Related party forms should all be signed and dated by the member of the Board when completed.</p>	<p><b>Implemented</b></p> <p>There is now a requirement to sign and date forms.</p>

<p>related parties of the Board and their close family members. As this was the first year of the new forms, there was no requirement to have these dated, and there was no instruction to sign the form.</p>		
<p><b>IT Programme Board</b>                  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.</p>	<p>Progress and associated IT costs should continue to be monitored by the Programme Board and reported to the Audit and Risk Committee</p>	<p><b>Implemented</b>                  The ITSOL project is currently ongoing. Updates have been provided to the ARC and further updates are due to be presented.</p>





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