

2018-19 ANNUAL REPORT BY NRS AUDIT and RISK COMMITTEE

1. Executive summary

1.1 The Audit and Risk Committee (the Committee) of NRS completed its programme of work for 2018-19 and was satisfied that the range of assurances and evidence of effective internal controls, together with responses to strengthen internal controls, supplied to the Committee were sufficiently reliable to provide overall assurance and support to the Accountable officer and to the Management Board in their financial stewardship responsibilities.

1.2 Sources of assurance considered by the Committee during the year include reports from the external auditors, internal auditors, objective scrutiny of risk management systems, and internal controls reports received from management.

1.3 The Committee was satisfied with the quality and relevance of the reports it received from both the external auditors and internal auditors.

1.4 The Committee noted the “Limited Assurance” opinion received from internal audit which was a deterioration from the prior year “Reasonable Assurance” opinion. The committee noted the areas reviewed by internal audit during the year, the challenges associated with the Census programme and discussed with management areas of strength and opportunities for improvement in risk management and control.

2. Purpose of the Committee

2.1 The Committee has been appointed to provide independent advice and support to the Accountable Officer of NRS in delivering their responsibilities for issues of risk, internal controls and governance.

2.2 The Committee operates by providing robust constructive challenge and scrutiny to support the Accountable Officer, including reviewing the effectiveness of internal controls, risk management arrangements, financial information, and the integrity and independent audit of the Annual Report and Accounts.

2.3 The Committee carries out a planned schedule of four meetings per year, in accordance with good practice, but may convene additional meetings if necessary. The quorum is a minimum of three Non-Executive members.

3. Duties of the Committee

3.1 The Committee will advise the NRS Chief Executive Officer, Accountable Officer and the NRS Strategic Board on:

- the strategic processes for risk, control and governance and the governance statement;

- the approval and signing of the annual report and accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit including reports, advice and findings from external audit on NRS financial statements in the annual report and accounts, in accordance with ISA 260;
- the adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
- the effectiveness of the internal control environment;
- the formulation of an effective three lines of defence assurance framework focussed on the organisation's key risks ;
- counter-fraud policies, whistle-blowing processes, and arrangements for special investigations.

3.2 The Committee primarily utilises work of internal audit, external audit and other sources of assurance, but will not limit itself to these sources. It will also seek reports and assurances from NRS as appropriate, concentrating on the over-arching systems of governance, risk management and internal control, together with indicators of their effectiveness.

3.3 The Committee can also recommend to the Accountable Officer issues of concern and/or opportunity it deems appropriate to bring to the attention of the NRS Strategic Board.

4. Membership and meetings

4.1 Membership of ARC during 2018-19 was:

- Colin Ledlie, Committee chair and Non-Executive Director ([profile](#))
- Mandy Gallacher, Non-Executive Director ([profile](#))
- Bill Matthews, Non-Executive Director ([profile](#))

4.2 Other regular attenders were NRS Chief Executive, NRS Accountable Officer, NRS Head of Strategy and Planning, NRS Head of Business Portfolio, NRS Chief Finance Officer, External Auditors (Audit Scotland) and Internal Auditors (Scottish Government Internal Audit Division)

5. External Audit (Audit Scotland) activities

5.1 External audit provide a significant independent test of the financial integrity, effectiveness of internal controls and robustness of sources of assurance at NRS. The 2018-19 audit plan set out arrangements for the audit of 2018/19 financial statements , as well as consideration and review of the following dimensions:

- Financial management
- Financial sustainability
- Governance and transparency
- Value for money

5.2 The main review activities carried out were:

- an interim audit of the National Records of Scotland's main financial systems and governance arrangements.
- an audit of the National Records of Scotland's 2018/19 annual report and accounts including the issue of an independent auditor's report.
- a review of NRS' arrangements in relation to the audit dimensions noted above.

5.3 The Committee received regular progress reports from Audit Scotland against the audit plan which culminated in Audit Scotland's 2018-19 Annual Audit Report which was considered on 5 September 2019.

5.4 The Committee was pleased to record that Audit Scotland had determined that the financial statements of NRS for 2018/19 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The Committee also noted the recommendations raised in the report and the agreed actions with management.

6. Internal Audit (Scottish Government Internal Audit Division) activities

6.1 Internal Audit focus on key activities which are relevant to NRS's business purpose and objectives and audits are designed to ensure an independent opinion on the adequacy of governance, risk management and internal control arrangements is provided.

6.2 The 2018-19 audit plan comprised reviews of:

- Census 2021 – Financial Management Arrangements
- Workforce and Succession Planning
- Estates Strategy – now to be considered as part of the 2019-20 planning arrangements.

and follow-up on the following reviews from 2017-18:

- IT Security Events & GDPR Arrangements
- Budget Management Arrangements
- Census 2021: Risk Management Arrangements

6.3 The Committee received regular progress reports from Internal Audit against the audit plan, considering recommendations made to NRS and the response to these including monitoring implementation of recommendations by NRS throughout the year.

6.4 The Committee noted the “Limited Assurance” opinion received from internal audit which was a deterioration from the prior year “Reasonable Assurance” opinion. The Committee noted the areas reviewed by internal audit during the year, the challenges associated with the Census programme and discussed with management areas of strength and opportunities for improvement in risk management and control.

7. Budget Monitoring Activities

7.1 The Committee regularly scrutinised budget-monitoring reports during the year, which reported projected outturns against the budgets approved by the Management Board and Scottish Government limits.

8. Risk Management Activities

8.1 The Committee regularly reviewed reports by management during the year on key strategic risks and operational risks. The Committee reviewed the effectiveness of risk management systems, internal controls and management systems.

9. Effectiveness of the Committee

9.1 The Committee has been fortunate in having a wide range of experience amongst its members, which enables constructive challenge and effective scrutiny of financial issues, audit and risks. However, the Committee would benefit from additional members and an effective succession plan needs to be developed. The recruitment of additional members with skills in financial and programme management is being progressed in 2019.

9.2 The Committee annually reviews the effectiveness of its own operations, in line with good practice, using the “Audit Committee Self-Assessment Checklist” contained in the Scottish Government’s Audit Committee Handbook .