

ANNUAL REPORT BY NRS AUDIT and RISK COMMITTEE for 2015-16.

Executive Summary.

The Audit and Risk Committee (ARC) of NRS completed its programme of work for 2015-16 and was satisfied that the range of assurances and evidence of effective internal controls supplied to ARC were robust, had integrity, and were sufficiently reliable to provide overall assurance and support to the Accountable officer and to the Board in their financial stewardship responsibilities.

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

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

Purpose of Audit and Risk Committee.

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

ARC 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.

ARC 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 NED members of ARC.

Duties of Audit and Risk Committee.

The key duties of ARC, as set out in its Terms of Reference, are:

- The strategic processes of risk, control and governance;
- The accounting policies and the accounts of the NRS;
- The plans, activities and results of both Internal and External Audit activity;
- The adequacy of NRS' responses to issues identified by audit activity or by Parliamentary Committees, where they affect NRS' overall performance
- Other sources of assurance relating to corporate governance and performance of NRS, including interpretation and implementation of guidance from the Scottish Public Finance Manual (SPFM) and other relevant sources.

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.

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

Membership and Meetings.

Membership of ARC during 2015-16 comprised:

- Ian Doig, Chair of ARC and NED Management Board member. (Background: Formerly CIPFA Director for Scotland and Chartered Public Finance Accountant)
- John Aldridge, Independent External ARC Member. (Background: Formerly Scottish Government Director General - Finance).
- Mandy Gallacher, NED Management Board member and ARC member. (Background: Mandy Gallacher Consultancy Ltd)
- Michael Moss, NED Management Board member and ARC member. (Background: Research Professor in archival studies in the Humanities Advanced Technology and information Institute at the University of Glasgow)
- Gordon Shipley, NED Management Board member and ARC member. (Background: Home Office, and formerly London 2012 Olympic Delivery Authority)
- Colin Ledlie, NED Management Board member and ARC member (from 1st February 2016). Background: Actuary, with wide business experience.
- Bill Mathews, NED Management Board member and ARC member (from 1st February 2016). Background: BBC Trustee, with wide governance and security industry experience.

Other regular attenders at ARC meetings included:

- Chief Executive (Tim Ellis);
- Accountable Officer (Penni Rocks);
- Finance Business Partner (Helen Bennett);
- Head of Portfolio Office (Simon Hazelwood);
- External Auditors (PwC);
- Internal Auditors (SG Internal Audit Services);
- ARC Secretary.
- ARC may also ask any other officials to attend to assist with its discussions on any particular matter.
- ARC may ask any or all of those who normally attend, but are not members of ARC, to withdraw, to facilitate open and frank discussions of particular matters.

External Audit Activities.

External audit provides a significant independent test of the financial integrity, effectiveness of internal controls and robustness of sources of assurance at NRS.

The work of external audit during the year included verifying that the financial statements present a “true and fair view”, and independently reviewing the effectiveness of internal controls. The Committee received regular reports from NRS’ external auditors (PwC), including ARC monitoring successful completion of the 2015-16-audit plan.

The External Auditor’s Annual Report for 2015-16 was considered at the ARC meeting on 22nd September 2016. ARC was pleased to record that PwC had awarded an unqualified audit certificate on the 2015-16 financial statements.

Key external audit findings reported for 2015-16 included:

- *“Governance and Internal Control: 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. Based on our work performed, we consider the systems of internal control to be adequate”;*
- *“Fraud: 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”.* However, ARC noted the theft of a camera (valued £5k) during the year.
- *“NRS experienced an IT incident in March 2016 where a virus affected one of their Scottish Family History systems. The virus was quickly contained but part of the network was closed as a precaution. No personal or sensitive information was lost and normal service was resumed 3 days later”.*
- A number of improvements to financial controls and efficiencies were recommended by both external and internal auditors, and were accepted by management.
- ARC held a private discussion with the external auditor on 22nd September 2016 on the completion of the 2015-16 audit, in order to explore any areas of potential concern by the auditor, in accordance with recommended audit committee practice. The only significant concern identified was significant turnover in senior finance staff. ARC later discussed this concern with NRS senior management, and management gave assurances that this matter was being addressed.

A change of external auditor took place at the end of financial year 2015-16. From 2016-17, the external auditor for NRS is Audit Scotland. The rationale

for the change is that PwC reached the end of its contract by completing the 2015-16 audit. Audit Scotland protocols require a change of external auditor periodically, to comply with audit standards by changing auditor to ensure objectivity and independence.

Internal Audit Activities.

ARC considered a range of internal audit reports during the year on audits commissioned to review specific risk issues, based on assessment of risks, and to test the effectiveness of internal controls and risk mitigation measures; the Committee then considered the audit findings and recommendations, together with reviewing management's responses to the audit recommendations. The Committee monitored the implementation of audit recommendations, with the objective of strengthening internal controls, efficiency and risk management throughout NRS.

The Committee was pleased to note improved working relationship and constructive dialog developing between the internal audit team and ARC.

ARC considered several internal audit reports during the year, including:

- Contract Management Arrangements
- ITSOL (IT Solutions Programme)
- Information Handling and Security
- Risk Governance Arrangements – on-going scrutiny throughout year

Internal Audit provided an overall assurance opinion for the financial year 2015-16 of "reasonable assurance", which was the same as the previous year.

Budget Monitoring Activities.

ARC regularly scrutinised budget-monitoring reports during the year, which reported projected outturns against the budgets approved by the Management Board and Scottish Government limits. ARC noted improved financial management reports, including more precise projected outturns and comparisons of outturn projections with budget targets, improved intelligibility of both explanatory commentary and format.

The audited Net Resource Outturn for financial year 2015-16 was £19,636K, compared to the approved Resource Budget of £21,150K. The result was an underspend of £1,514K, which arose mainly from an underspend within depreciation of £833K, with an underlying underspend of £681K.

Risk Management Activities.

The Committee regularly reviewed reports by management during the year on the effectiveness of risk management systems, internal controls and management systems. Details of on-going reviews of risk management are contained in the ARC minutes.

ARC expressed concern during the year about slow progress on compiling a comprehensive asset register, and encouraged management to speed up progress to complete a comprehensive register and valuations of all assets, in order to minimise the risk of loss and potential reputational damage.

Top risks identified and reviewed during the year included:

- Funding: Risk to delivery if sufficient funding resources are not available from Scottish Government and other sources;
- Infrastructure: Risk if NRS cannot secure modernised infrastructure to meet the changing demands on the business, including modernised digital facilities and sufficient accommodation for storage and conservation;
- ICT: Risks include shortage of senior ICT staff, out-dated legacy IT equipment, and cyber attacks;
- Census 2021: Risks will arise if insufficient resources are available to gear up for Census 2021.

Effectiveness of ARC.

ARC has been fortunate in having a wide range of experience amongst its members, which enables the committee to provide constructive challenge and effective scrutiny of financial issues, audit and risks. The Committee was strengthened during the year by three additional ARC members, who were also members of the Management Board: Michael Moss, Colin Ledlie and Bill Mathews.

The Committee regularly 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.

Forward Look.

Areas of risk identified by ARC for future scrutiny included:

- ICT strategy and projects;
- Cyber Security risks
- Census 2021 risks
- Staff engagement and performance.

Ian Doig, Chair of NRS Audit and Risk Committee.
January 2017.