

National Archives of Scotland Audit Committee Meeting
Thursday 31 July 2008, 10:00am,
Lord Clerk Registers Room, General Register House

Present: Frank Manson (Chair, Non Executive Director); Michael Moss (Non Executive Director); George MacKenzie (NAS); Dave Brownlee (NAS); Jim Grady (NAS); Gary Devlin (Grant Thornton UK LLP). Pearl Marshall (SG Internal Audit); Derek Glover (SG Accountancy Services); Jenny Cutts (Secretary, NAS).

Apologies: Maureen McGeown (SG Finance Directorate); Gordon Robinson (SG Internal Audit).

1. Minutes of last meeting held on 13 March 2007 (circulated) and matters arising

1.1 The minutes of the last meeting were accepted.

2. Accounts 07/08 overview

2.1 The draft accounts 2007/08 were circulated on 30 July 2008. Jim Grady provided a verbal commentary. A variance analysis working paper will be produced for the external auditors. It was noted that External Audit will commence the audit of accounts from 4 August 2008.

2.2 The draft accounts showed an underspend of £100,000 on an Operating Budget of £7.868 million. The small underspend can be attributed to a number of factors: savings of salary costs due to a combination of efficiency savings and delays in filling vacancies; some savings in accommodation costs due to work on the ScotlandsPeople Centre being completed behind the original schedule, and an increase in income due to reimbursement from RoS of costs associated with the Register Archive Conversion project. It was noted that four staff had applications for early retirement approved at short notice towards the end of the financial year, following a scheme announced by the Scottish Government. This represented roughly the same ratio of early retirees/total staff numbers as the core SG. Total costs of the early retirements had been met from the 2007-2008 budget.

2.3 Frank Manson noted difficulties in annuality and accounting for capital projects that may not be predicted with certainty. Jim Grady added that monthly cash management is useful in this regard.

2.4 Michael Moss observed that NAS Annual Accounts do not include commentary and asked whether explanatory text might be included to counteract unrealistic expectations of stakeholders within the archival community. Frank Manson agreed that an explanation of the financial climate would be beneficial. Jim Grady added that the accounts are produced in a standard format that does not preclude additional commentary. Derek Glover suggested that this commentary may be better suited to the Annual Report rather than Annual Accounts. It was accepted that the NAS Annual Report reaches a wider audience, but George Mackenzie agreed that adding a simple paragraph to both the Report and Accounts would be feasible.

3. Internal Audit – Annual Report 2007-2008, Audit Plan 2008-2009 (papers circulated)

3.1 Pearl Marshall explained the new structure in Scottish Government (SG) SG Internal Audit with regard to agencies. Pearl Marshall is Agencies Internal Audit Manager and Gordon Robinson is the Team Leader for NAS audit.

3.2 The Annual Report 2007/08 was circulated and overall reasonable assurance noted. All recommendations were accepted. 80% of the internal audit plan was completed at year-end. The Reader Services Branch audit had been issued later than the others and comments are awaited. Assurance provided for the review of Scottish Family History Project was substantial. Assurances provided for reviews of Corporate Governance and of Payroll Systems were reasonable. No cases of fraud were found. Committee members were invited to note the report and to offer comments.

3.3 Michael Moss observed that the recommendation concerning production of an ICT strategy was agreed in principle and will be kept under review. George Mackenzie explained that an overarching ICT Strategy is desirable and a large amount of work is required to achieve it. Michael Moss added that development of an ICT Strategy is relevant to the NAS Risk Register. Frank Manson suggested a phased approach to developing an overall strategy. This could include a strategy for long term preservation of electronic records, application development, desktop and servers and joint working opportunities with other organisations.

3.4 A discussion about joint working within the heritage sector was held. Ministerial direction for shared services has been given to National Library of Scotland (NLS), National Museums of Scotland (NMS) and National Galleries of Scotland (NGS). Ministerial decisions concerning the reform of the public sector landscape are expected. George Mackenzie explained that NAS leads the ScotlandsImages project with partnership from NLS, NMS, NTS and Royal Commission on the Ancient and Historical Monuments of Scotland (RCAHMS). The ongoing NAS electronic records preservation scoping study involves NLS and General Register Office for Scotland (GROS).

3.5 Pearl Marshall noted that the Cabinet Office Paper on information security is applicable to Ministry of Defence and similar government departments but does not appear to be wholly applicable to many government bodies in Scottish Government.

3.6 The Internal Audit Periodic Plan 2008-2009 was presented. Members were invited to offer any comments on the paper and to approve it. The plan was approved.

3.7 Michael Moss noted that planned audit number 3 is validation of Key Performance Measures. This is an issue discussed at previous meetings of the Audit Committee. Dave Brownlee explained that new Key Performance Indicators (KPI's) have been included in the NAS Corporate Plan 2008-2009. It was accepted that the role of Internal Audit is to audit measurement of KPI's. Consideration of the best performance measures is for the Management Board. George Mackenzie welcomed further views concerning KPI's and explained that development in this respect will be ongoing. Frank Manson agreed and added that the Audit Committee would welcome both the development of robust KPI's by the Management Board and their validation by Internal Audit.

3.8 Gary Devlin outlined his experience regarding Best Value and efficiency measurement and offered assistance with KPI development. He asserted that operational re-engineering is often required in order to provide correct information for performance measurement and agreed that this is a long term activity. George Mackenzie noted that the KPI's included in annual NAS Corporate Plans are wider in scope than those included in NAS Annual Reports.

3.9 George Mackenzie described the Scottish Government Purpose and the Scotland Performs framework for measuring performance. It is imperative that NAS objectives and performance indicators are aligned with this framework and achieving alignment will take time. He explained that fewer and better performance measures will be required across Scottish Government. Use of the Nations Brand Index in relation to this was discussed.

3.10 Organisational changes regarding the ScotlandsPeople Centre were discussed. Frank Manson accepted that internal audit of ScotlandsPeople would be best undertaken during 2009-2010 when the changes are embedded. George Mackenzie recognised that staff and systems changes will take time to become established.

4. External Audit

4.1 Gary Devlin circulated a progress report. Key findings of financial systems audit are that there are good internal controls in place. No material control weaknesses were identified. Review of fixed assets identified that NAS currently do not capitalise any staff costs linked to capital projects. Impairment charges, use of SEAS and monthly accruals accounting were also discussed.

4.2 The IT Audit covered internal control procedures covering IT security, disaster recovery, and compliance with Data Protection Act requirements. It was noted that data protection guidelines are in place and senior management approval is required. One anomaly regarding privileged access was identified and subsequently resolved. It was not considered to be of significant concern.

4.3 Jim Grady explained that accruals accounting would require a change to the SG's SEAS system. Frank Manson acknowledged that the Scottish Government's accounting system is not adequate for this purpose and argued that operating a parallel system would be disadvantageous. Resolution is sought from Scottish Government Finance.

4.4. George Mackenzie explained that unpredictable events feature widely in the public sector and cited the Scottish Government's early retirement offer as an example. It was accepted that accurate financial information is essential in reacting to unpredictable events.

4.5 The budget timetable was discussed. Frank Manson supported the view that this be set out in advance and strictly adhered to. Audit Committee meeting dates can then be built more accurately around the budget timetable.

4.6 The NAS asset reserve was discussed. George Mackenzie explained that timely replacement of digital cameras is planned and that the Donated Asset Reserve which NAS currently holds would be used for this purpose.

4.7 The potential impact of the ScotlandsPeople Centre was considered with regard to demonstration of efficiency savings. Electronic record production for the legal search room is expected to demonstrate efficiency saving. The possibility of increased record productions in the Historical Search Room will be used to inform digitisation programming. Frank Manson expressed the view that demonstrating efficiency savings is difficult because government activities are constantly changing and there can be no fixed baseline.

5. NAS Risk Register (circulated)

5.1 Michael Moss noted the improved format and suggested that High likelihood/High impact risks be grouped together at the top of each section. Risks reviewed and discussed included deposit pressures, lack of long term IT strategy and proliferation of electronic records systems. It was explained that the second stage of the Digital Data Archive project is underway and this will be reflected in the risk register. The division of IT strategy development into identified elements was suggested as a manageable approach.

5.2 Frank Manson suggested that Key Performance Indicators are best delivered when applicable to the whole organisation rather than individual departments. Difficulties in comparing measurements across the heritage sector were noted with regard to different methodologies employed.

5.3 It was agreed that an additional risk concerning industrial action be added.

6. Any other business

6.1 The International Financial Reporting Standards (IFRS) were discussed at length. Derek Glover explained that shadow accounts must be produced next year and preparatory work is required this year. An additional accountant has been identified to meet resource demand. Dave Brownlee will attend a training day regarding IFRS. Aspects highlighted during discussion include accrued annual leave valuation, proof of non-materiality, terms of deposit for records, liability statements, financial instruments, valuation of websites, catalogue and records. It was noted that valuation of NAS assets would require a great deal of work.

6.2 It was noted that asset valuation is compromised by the inalienability of public records. Michael Moss added that there is sectoral resistance to the valuation of heritage items generally. Frank Manson supported the view that ascribing value to heritage items is difficult and asserted that appreciation rather than depreciation may be relevant.

6.3 Derek Glover explained that IFRS does not address a variety of activities undertaken by the Scottish Government because limited companies do not engage in them. Letters of comfort and peppercorn rents were cited as examples. These issues must be addressed by the Scottish Government rather than a local agency level. Frank Manson added that UK Treasury or Scottish Government must make policy decisions about all elements not covered by IFRS. Derek Glover explained that a series of implementation guidance papers will be produced by Scottish Government. A paper mapping the impact of IFRS on NAS would facilitate further discussion. A special meeting of the Management Board for consideration of IFRS will be arranged. It was agreed that IFRS be a standing item on the Audit Committee agenda.

6.4 Associated risks were discussed. Additional work will be required in the areas of accountancy and asset valuation. Resource constraints relate to the risk that NAS is unable to provide Scottish Government with a competent budget.

6.5 A new Audit Committee Handbook is due to be launched and an event targeted towards all Audit Committee Chairs is expected.

7. Date of next meeting

The next meeting will be held in the Lord Clerk Register's Room, General Register House at 10:00am on 13 October 2008.

Jenny Cutts
5 August 2008