

National Archives of Scotland Audit Committee Meeting
Thursday 13 March 2008, 10:00am,
Robertson Wing Meeting 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); Scott Mackay (FCS: FEP); Grace Jordan (Grant Thornton UK LLP); Michael Healy (SG Internal Audit); Alistair May (SG Internal Audit); Derek Glover (SG Accountancy Services); Jenny Cutts (Secretary, NAS).

Apologies: Gary Devlin (Grant Thornton UK LLP).

1. Minutes of last meeting held on 29 October 2007 (circulated) and matters arising

1.1 The minutes of the last meeting were agreed.

2. Audit Committee Terms of Reference (paper circulated)

2.1 Terms of reference for the Audit Committee revised in alignment with the Scottish Public Finance Manual Audit Handbook were discussed. The membership of the Audit Committee was considered. At present two non executive directors form membership of the committee. It was agreed that at least three members should be engaged. George Mackenzie agreed to discuss membership details further with non executive directors. Former applicants and current staff in other government organisations are considered to be potential candidates. Michael Moss suggested that knowledge of performance measurement within a heritage context would be a useful additional skill. Further business process experience is also seen as an advantage.

2.2 Procedures for reporting to management board were discussed. It was agreed that one formal annual report summarising audit committee business submitted to the Accountable Officer before signing of the SIC would be sufficient. The agreed minutes of meetings would be sufficient for reporting purposes throughout the rest of the year.

2.3 The number of audit committee meetings was considered. Frank Manson suggested that four meetings may be held each year covering draft audit planning, finalised audit planning, review of draft audit reports and final audit reports. Dave Brownlee noted that four meetings have been held in former years and it was found that for one of these meetings it was difficult to find anything meaningful to discuss which was not covered at other audit meetings. It was agreed that three meetings per year will be held with the possibility of a fourth if necessary. Guidance in the SG Audit Handbook recommends four meetings. It was noted that the handbook does not address proportionality and much of the guidance requires down-scaling to suit smaller organisations such as NAS. Coordination of internal and external audit is recognised as a key function of the NAS Audit Committee.

3. External Audit – Audit Plan for 08-09 (paper circulated)

3.1 The audit plan circulated by Grant Thornton UK LLP was discussed. Financial statements, governance arrangements and performance measurement have been identified as critical areas with potentially high audit risk. The introduction of International Financial Reporting Standards has been identified as a risk as preparation of NAS accounts becomes significantly more onerous. The critical governance elements identified are budget and project management; budget monitoring and the internal control framework for IT systems.

Performance measurement will be audited with regard to demonstration of best value and efficiency savings. Grace Jordan explained that the planned IT governance audit will consider access control, technical security and Data Protection and Freedom of Information requirements.

3.2 George Mackenzie raised concerns about proportionality in respect of data security. A full response had recently been provided to the Scottish Government data handling review. It was noted that NAS holds a small amount of non-sensitive customer data and that information legislation procedures are embedded across office systems.

3.3 Michael Moss asked about data protection in respect of information in the public catalogue. There are measures to prevent personal identification data being included in catalogue entries. It was suggested that these may be included when auditing data protection controls.

3.4 The Scottish Courts Records Experts Group was cited as an example of data handling issues being addressed. George Mackenzie added that NAS has been involved in the establishment of this group. Court and Legal Records Branch contribute record keeping guidance to Scottish Courts and the Scottish Courts Service in relation to records deposited with NAS. Frank Manson commented that information about records management advisory functions is useful for external audit.

3.5 Dave Brownlee reported discussion with Grace Jordan concerning planned IT governance audit. An IT review was recently conducted by internal audit. It was noted that external audit will build on the recent IT audit rather than duplicate efforts.

3.6. Grace Jordan reported that progress has been made concerning donated asset reserve and Register of Interests.

3.7 Issues regarding demonstration of Best Value were discussed. The difficulties of showing best value in specialised operations such as document conservation were reiterated. Audit Scotland will produce a Best Value model. Template sharing and comparison with similar organisations were considered useful. Michael Moss confirmed the value of benchmarking. It was suggested that Grant Thornton UK LLP will seek a presentation concerning this model from Audit Scotland.

3.8 The planned external audit timetable was agreed.

4. Internal Audit – Progress report (paper circulated)

4.1 Mike Healy presented the internal audit progress report and summarised activities since July 2007. Progress has been made in respect of three agreed reviews (payroll, Reader Services Branch and governance). Reviews will be completed by year end. Five of the six planned follow-up reviews have also been completed to date. The category of emerging overall assurance is 'reasonable'.

4.2 It was announced that Mike Healy will be taking up a new post outwith the Audit Unit and will not therefore attend future Audit Committee meetings. Alistair May will act as interim contact while restructuring takes place. George Mackenzie recorded thanks to Mike Healy for his work with NAS over the past two years.

4.3 Revision of the NAS Framework Document was discussed in relation to governance. It was accepted that the current document produced in 2001 requires updating. Dave Brownlee explained that NAS senior management recognise the need to revise this agreement but are unable to do so while governance arrangements remain fluid. Frank Manson supported this perspective and noted the prerequisite that Scottish Ministers must first decide on strategic governance arrangements for all Next Steps Agencies before a revised Framework Document may be published.

4.4 IT sustainability and preservation issues were discussed. It was agreed that the sustainability element of information security must be made explicit within IT audit. Alistair May suggested that this may be an issue for external audit IT review to take up. George Mackenzie explained the critical importance of data sustainability including media obsolescence to the NAS with regard to the permanent preservation of electronic archives.

5. Implications of Introduction of International Financial Reporting Standards (verbal report by Derek Glover, SG Accountancy Services Unit)

5.1 Derek Glover explained UK Treasury plans to introduce International Financial Reporting Standards (IFRS). It is expected that this will be introduced for 2008-2009 accounts with the requirement that 2007-2008 accounts be prepared under current standards and restated in relation to IFRS. Implications concerning PFI contracts were explained. Although PFI accounting does not affect NAS directly, national ramifications affect wholesale implementation across government. Guidance is expected from the Financial Reporting Advisory Board and a decision concerning timing is expected from Treasury in consequence.

5.2 The role of external audit in relation to the IFRS is not yet known. The risk of resourcing the additional work has been discussed with internal audit and with NAS Accountable Officer. Derek Glover intends to provide formal advice detailing how restatement of NAS accounts may be achieved. The possibility of engaging financial consultants for this purpose was discussed but considered to be an inadequate solution. It was emphasised that the same volume of work is required whether differences are material or not. Derek Glover added that no core government funds will be available for the commission of valuations. Guidance notes will be circulated once available.

5.3 Derek Glover reported his involvement on a technical working group concerned with PFI, fixed asset valuation and website generated income. Frank Manson noted that intellectual assets valuation is pertinent to NAS in respect of the ScotlandsPeople online service. The criteria for valuing income generating websites is not clear. George Mackenzie confirmed that original records and digital surrogates are not presently included in the asset register. Frank Manson expressed the view that archives may be considered to increase in value as they get older in a similar way to antiques.

5.4 Deposit agreements for Gifts and Deposits were discussed with regard to valuation, contingent liability and ownership. George Mackenzie recognised the utility of discussing this issue with comparable organisations.

5.5 It was agreed that Derek Glover and Dave Brownlee formalise a plan to deal with the new standards.

6. Date of next meeting

The next meeting will be held in the Lord Clerk Register's Room, General Register House at 10:00am on Thursday 31 July.

Jenny Cutts
28 March 2008