

# **National Archives of Scotland**

**Report on the 2006-07 Audit**

**29 October 2007**

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# Executive Summary

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## Introduction

We have audited the financial statements of the National Archives of Scotland (NAS) for 2006-07 and examined aspects of performance and governance arrangements. This report sets out our key findings and discharges our responsibilities under ISA260 - reporting matters arising from our audit to those charged with governance.

## Financial Statements

We have given an unqualified opinion on both the financial statements for 2006-07 and on the regularity of transactions undertaken during the financial year.

The Operating Cost Statement for the year records net expenditure of £10.630 million against a budget of £11.614 million. The budget underspend of £0.984 million resulted from higher than expected income from fees and charges and lower than expected expenditure on staff costs as a result of improved sickness absence procedures.

NAS's Operating Cost Statement records a charge in excess of £4 million relating to the impairment of General Register House. This charge results from the revaluation of this asset, and consequently its carrying value has been reduced from £8.8 million to £4.1 million. Accounting rules require such differences to be written off to the Operating Cost Statement in the year they are identified and this cost is non-recurring.

NAS incurred capital expenditure of £3.159 million against a budget of £2.9 million resulting in a small overspend linked to the construction of the Scottish Family History Centre.

Our audit found that NAS has detailed budget monitoring procedures in place, however, there is no timetable for the production of the annual budget and the financial position is monitored on a cash basis. This presents a risk that senior management do not have an accurate picture of the financial performance of the organisation throughout the year.

## Governance

We found that governance arrangements operated well and within a generally sound control environment. NAS generally complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual (SPFM), in so far as it is relevant to its role. NAS did not fully comply with the requirements of the SPFM during the financial year as membership of its audit committee was not limited to non executives. NAS has taken action to address this matter for the 2007-08 financial year.

Our review of internal audit arrangements found that the internal auditors complied with the requirements of the Government Internal Audit Manual, and we were able to place reliance on their work.

## Performance

We carried out an overview of arrangements in relation to the duty to deliver best value and efficiency in its operations. Our review found that NAS has not yet developed a formal approach to measuring efficiency savings and monitoring continuous improvement that can be embedded in the corporate planning and reporting cycle.

## The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Accountable Officer to decide the extent of the internal control system appropriate for the management of NAS.

## Status of our Report

This report is part of a continuing dialogue between NAS and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in systems and work practices at NAS.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in this review for their assistance and co-operation.

**Grant Thornton UK LLP**

**October 2007**

# Financial Statements

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## Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of NAS as at 31 March 2007 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers; and
- in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

## ISA 260: Communication of Audit Matters to Those Charged with Governance

We have given an unqualified opinion on the 2006-07 financial statements of NAS. We are able to conclude that the financial statements give a true and fair view of the financial position for the period from 1 April 2006 to 31 March 2007 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260 and outcomes against the requirements of the Standard are contained in this report. Under ISA260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in Table 1 below:

Table 1: ISA260 Reporting

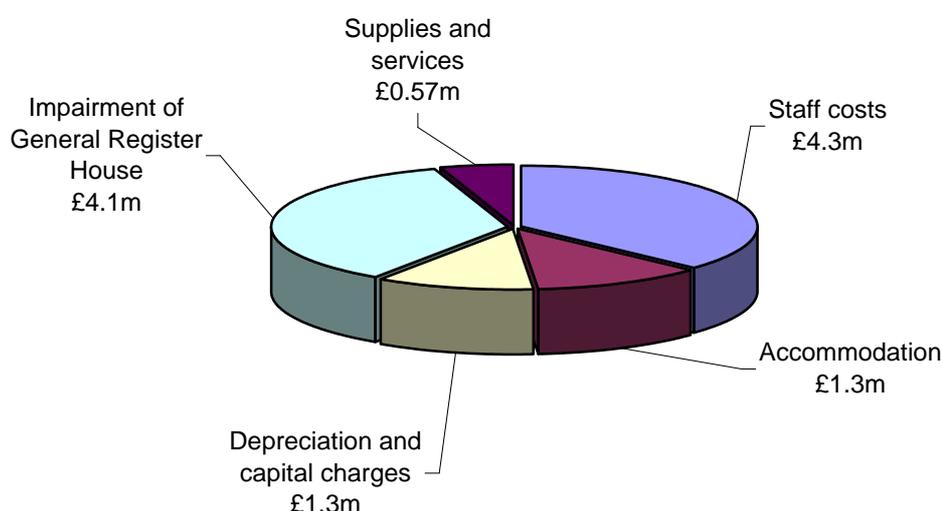
Area	Key Messages
Independence and objectivity of the audit team	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> <li>• we are independently appointed by Audit Scotland;</li> <li>• we comply with the Auditing Practices Board's Ethical Standards; and</li> <li>• we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.</li> </ul>
Quality of the Accounts	<p>The draft financial statements were presented for audit on 20 July 2007 in line with agreed deadlines, and the supporting working papers provided were of a good standard.</p>
Approach to the audit	<p>Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> <li>• we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; and</li> <li>• during the 2006-07 financial year, we performed audit work on the core financial systems in operation at NAS. Our work did not identify any specific control weaknesses in the financial systems operated by the NAS that we need to draw to the audit committee's attention.</li> </ul>
Accounting policies and practices	<p>NAS has adopted appropriate accounting policies in accordance with the Government Financial Reporting Manual (FRoM) in the areas covered by our testing.</p>
Material risks and exposures	<p>The Accountable Officer has considered and confirmed that NAS has no material risks and exposures which should be reflected in the financial statements. The Accountable Officer is asked to confirm this in the Letter of Representation</p>
Audit adjustments and unadjusted errors	<p>We identified several disclosure amendments and reclassifications to improve the presentation of the accounts. There are no unadjusted differences to report.</p>

The key matters arising from the audit are:

## Financial Performance

The Operating Cost Statement for the year records net expenditure of £10.630 million against a budget of £11.614 million. The budget underspend of £0.984 million (8% of budget) resulted from higher than expected income from fees and charges, and lower than expected expenditure on staff costs, partly as a result of improved staff absence procedures. Staff costs account for 37% of total expenditure, with the impairment of General Register House (35%), supplies and services (4%), accommodation charges (12%), depreciation and capital charges (11%) and other costs (1%) making up the remainder. A more detailed analysis of NAS's 2006-07 revenue expenditure is shown in figure 1 below:

Figure 1 - Analysis of 2006-07 Revenue Expenditure



NAS's Operating Cost Statement records a charge in excess of £4 million relating to the impairment of General Register House. This charge results from the revaluation of the General Register House asset resulting in its carrying value being reduced from £8.8 million to £4.1 million. Accounting rules require such differences to be written off to the Operating Cost Statement in the year they are identified and this cost is non-recurring.

During the year NAS also acquired the Dalhousie Collection at a cost of £1.6 million. This major collection includes signed letters from a number of important historical figures, including George Washington and Florence Nightingale. NAS was able to purchase this Collection with financial assistance from the National Heritage Memorial Fund.

NAS incurred capital expenditure of £3.159 million against a budget of £2.9 million. The overspend against capital budget largely resulted from the capitalisation of work relating to the Scottish Family History Centre.

## Budgetary Control

NAS has detailed monthly budget monitoring procedures in place but we noted during the year that performance against budget is monitored on a cash basis. This presents the risk that management do not have accurate information on financial performance throughout the year. This risk is highlighted by NAS budget forecasts at the year end which projected an overspend against budget of £1.1 million rather than the underspend of £0.984 million which eventually emerged. Our review of management information and budgetary control also identified that a formal timetable for the production of the annual budget is not in place.

***Refer action plan points 1 and 2***

## Scottish Family History Centre

During 2006/07, work has continued on General Register House to create the Scottish Family History Centre, in partnership with the General Register Office of Scotland and the Court of the Lord Lyon. The new centre, known as ScotlandsPeople will allow NAS to respond to the increasing demand for genealogy services, and develop ancestral tourism and tours. The project has suffered a number of setbacks as a result of the original contractor going into receivership. Since then, NAS has put revised plans in place with a new contractor, following a tendering exercise. At the time of the audit, the overall project plan was running around 10 weeks behind schedule, however, some parts of the programme are ahead of schedule and NAS anticipate that the centre will open in March 2008 as planned.

## Financial Reporting Manual

NAS are required to present their accounts in line with the requirements of the FReM. Our review of the draft accounts identified a number of changes that were required in order to ensure the accounts complied with FReM disclosure guidelines:

- the completion of a Remuneration Report in the foreword of the accounts;
- an Operating Cost Statement; and
- the inclusion of the basis of apportionment for the Statement of Resources by Departmental Aims and Objectives.

***Refer action plan point 3***

## Accounts Direction

Section 19(4) of the Public Finance and Accountability (Scotland) Act 2000 requires NAS to compile their accounts as directed by the Scottish Ministers. Our audit identified that NAS had included an out of date Accounts Direction from 15 July 2002 in its draft accounts 2006-07 accounts and in its signed 2005-06 accounts.

The correct Accounts Direction has now been included in the finalised accounts.

***Refer action plan point 4***

## Donated Asset Reserve

NAS has held a donated asset reserve of £0.135 million for a number of years after the funds were bequeathed to the organisation to be used on microfiche equipment. NAS had plans in place to spend the balance on digital imaging equipment in 2003 but as a result of an underspend on the capital budget during that year they were unable to do so. There are currently no plans in place to spend the donated asset reserve.

**Refer action plan point 5**

## Standard of accounts and supporting papers

The draft financial statements were presented for audit on 20 July 2007 in line with agreed deadlines, and the supporting working papers provided were generally of a good standard.

A number of presentational amendments to the draft financial statements were recommended and accepted by management during the audit process. These changes are reflected in the final draft financial statements presented to the audit committee. The changes relate to the inclusion of disclosures required by the Government Financial Reporting Manual.

## Summary of accounting adjustments

During the audit we identified only one error that required adjusting the accounts, relating to capital invoices that had not been accrued at the year end.

Table 2: Summary of adjusted differences

	Income & Expenditure account		Balance Sheet	
	Dr	Cr	Dr	Cr
Adjustment required to recognise omitted additional accruals.	Expenditure £18,182		Capital £15,421	Accrual £33,603

## Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that:

- the Statement complies with Scottish Executive guidance;
- that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate; and
- that the contents of the Statement are consistent with the information emerging from our normal audit work.

# Governance

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## Introduction

As part of our 2006-07 audit, we assessed the adequacy of NAS's governance arrangements against good practice standards for the public sector. We examined:

- the structures and processes for decision making;
- risk management and systems of internal control;
- arrangements for the prevention and detection of fraud and irregularities;
- standards of conduct, integrity and openness; and
- reporting arrangements and monitoring of NAS's overall financial position.

## Corporate governance arrangements

We reviewed and reported on aspects of NAS's corporate governance arrangements in our Interim Management Report. We found that NAS's corporate governance arrangements operated well and within a generally sound control environment. NAS generally complies with the good practice guidance in relation to governance as outlined in the Scottish Public Finance Manual.

We identified six performance improvement observations and management has agreed an action plan to address the issues identified. One of the key findings related to the composition of the Audit Committee. During 2006/07, the Audit Committee at NAS did not fully comply with the requirements of the Scottish Public Finance Manual as senior officers acted as members of the committee, rather than attendees. NAS has now recruited two additional non-executive directors to help ensure that in future the audit committee is comprised of independent members.

## Key controls

We reviewed and reported on the existence and operating effectiveness of key financial controls in our Interim Management Report. Our review covered the following systems: income and accounts receivable, fixed assets management, expenditure and accounts payable and the general ledger. We found that the systems of internal control are generally operating effectively.

## Internal audit

The Scottish Executive Internal Audit Service provided internal audit services to NAS for the year ending 31 March 2007. We reported in our Interim Management Report the results of our review of internal audit arrangements. Our review concluded that internal audit complied with the requirements of the Government Internal Audit Standards, and we were able to place reliance on their work.

# Performance

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## Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit, we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

## Best value

NAS has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources. In common with other public sector organisations, NAS seeks to make efficiency savings in its operations. NAS has made good progress with working in partnership with other bodies to reduce costs. Examples include the ScotlandsPeople project and the Registers Archive Conversion with the Registers of Scotland to make archived material available electronically.

A review of best value arrangements for NAS was issued by the previous auditors in 2005-06, which reported that NAS had already implemented many of the best value principles in its operations, but with scope remaining to improve review and options appraisal and public performance reporting.

NAS works to a number of performance targets agreed with Scottish Ministers. Performance against the targets is reported annually in NAS's annual report and updates are provided to the public on the website on a quarterly basis. However, our review found that NAS has not yet developed a formal approach to measuring continuous improvement that can be embedded in the corporate planning and reporting cycle.

***Refer action plan point 6***

**Grant Thornton UK LLP**

**29 October 2007**

## Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Budgetary Control</b>					
1	NAS budget monitoring reports are currently prepared on a cash basis.	Medium	NAS should ensure that future budget monitoring reports are prepared on an accruals basis to ensure that senior management have an accurate picture of the financial performance of the organisation throughout the year.	SEAS system reports are on a cash accounting basis, but when preparing monthly monitoring reports to for Branch Heads we will try to take account as far as possible of accruals	31 <sup>st</sup> October 2007
2	A formal budget timetable is not in place. This increases the prospect of delays in completing the annual budget process	Low	The National Archives should develop a budget timetable to formalise current practice and track the preparation of the annual budget against this.	The annual corporate planning process involves bi-lateral meetings between the Keeper and Branch Heads, which include discussion of budgets and are part of a formal budgeting process. This process is used to set budgets at cost centre levels and to populate SEAS. We are happy to set a formal timetable for this.	31 <sup>st</sup> December 2007
<b>Financial Reporting Manual</b>					
3	Our review of the draft accounts identified a number of changes that were required in order to ensure the accounts complied with FReM disclosure guidelines.	Low	NAS should undertake a supervisory review of the financial statements prior to submission to audit to ensure they meet all disclosure requirements outlined in the FReM.	Accepted. We will take this forward with SG Accountancy Services	31 <sup>st</sup> May 2008

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Accounts Direction</b>					
4	Our audit identified that NAS had included an out of date accounts direction from 15 July 2002 in its draft accounts 2006-07 accounts and in its signed 2005-06 accounts.	Low	NAS should contact the Scottish Executive to ensure a mechanism is in place to inform it when its accounts direction is revised.	Accepted	31 <sup>st</sup> May 2008
<b>Donated Asset Reserve</b>					
5	We noted that NAS has been holding £135k in a donated asset reserve but does not yet have any plans in place to use the funds.	Low	NAS should consider putting plans in place to use the funds currently held in the donated asset reserve.	Accepted. We plan to use this money to replace digital imaging equipment as it becomes obsolete	31 <sup>st</sup> March 2008
<b>Best value</b>					
6	Our review found that NAS has not yet developed a formal approach for measuring efficiency savings or continuous improvement that can be embedded in the corporate planning and reporting cycle.	Medium	NAS should set out a more formal plan on how it intends to measure, monitor and report on the achievement of best value and efficiency going forward.	Accepted	31 <sup>st</sup> March 2008