

National Archives of Scotland

Report on the 2007-08 Audit

December 2008

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1 Executive Summary

1.1 Financial results

For the year ending 31 March 2008, NAS reported an outturn of £7.802 million versus a budget of £7.868 million giving a small underspend of £66,000 (0.83%) for the year. Staff costs were £153,000 above budget, mainly due to severance costs incurred for 4 members of staff who retired early under a Scottish Government scheme. Administration income was £212,000 above budget, reflecting higher charges received from fees and charges for archive services.

NAS continued to record significant capital expenditure in 2007-08, as construction work on the ScotlandsPeople Family History Centre progressed.

1.2 Financial Statements

We have given an unqualified opinion on the financial statements of NAS for the 2007-08 financial year and on the regularity of transactions undertaken during that year.

The draft financial statements were presented for audit on 30 July 2008, in line with the agreed timetable. The accounts and supporting working papers were of a good standard.

There was 4 misstatements identified by our audit - these related to mainly to errors associated with recording creditors in the wrong accounting period, and unidentified differences in the fixed assets and sundry debtors reconciliations to the trial balance. Management adjusted the accounts for the identified misstatements, and there are no unadjusted misstatements remaining.

1.3 Governance

We found that NAS's governance arrangements operate well and within a generally sound control environment. NAS complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of NAS.

As part of the 2007-08 audit, we reviewed the systems of internal control in relation to core financial systems, IT systems and applications and compliance with the Data Protection Act 1998. Our audit found that the core financial systems continue to operate effectively, although we noted there is no documented IT strategy, and there is no disaster recovery plan in the event of a failure of IT systems. NAS has agreed to take action to address the weaknesses identified by audit during the financial year.

1.4 Performance

NAS is committed to achieving best value in its operations and has a best value approach that complies with the guidance issued by the Scottish Government. During the year, NAS continued to work with partner organisations in the public sector in delivering services on a joint basis, but has not yet developed a strategy for ensuring it meets good practice in achieving best value throughout its operations.

The Scottish Government has set NAS an efficiency saving target of £158,000 over the next 3 years. NAS is required to formalise an efficiency savings plan which will identify how it will achieve the targets set by the Scottish Ministers.

1.5 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.

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 the systems and work practices.

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 it. 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.

**Grant Thornton UK LLP
December 2008**

2 Introduction

2.1 Purpose of the Report

We have audited the financial statements of the National Archives of Scotland (NAS) for the 2007-08 financial year, and examined aspects of performance and governance arrangements. This report sets out our key findings and meets our requirement to communicate audit matters to those charged with governance in accordance with International Standard on Auditing (UK & Ireland) (ISAUK) 260.

2.2 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 2008 and of its income and 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 (FRM) 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 Government 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.

2.3 Independence and robustness

Ethical standards require us to provide a full and fair disclosure of matters relating to our independence. We have complied with the Auditing Practice Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

3 Financial Results

3.1 Operating Cost Statement

For the year ending 31 March 2008, NAS reported an outturn of £7.802 million versus a budget of £7.868 million giving a small underspend of £66,000 (0.83%) for the year. Table 1, below, highlights the main financial results for the year:

Table 1: Operating Cost Statement Summary

	Outturn £'000	Budget £'000	Variance £'000
Staff costs	4,703	4,550	153
Administration expenditure	4,084	4,089	(5)
Grants	27	29	(2)
Administration income	(1,012)	(800)	(212)
Total Departmental Expenditure Limit (DEL)	7,802	7,868	(66)

Source: National Archives of Scotland Financial Statements 2007-08

Staff costs were £153,000 above budget, mainly due to severance costs incurred for 4 members of staff who retired early under a Scottish Government scheme. NAS has created a provision of £240,000 to recognise the liability.

Administration income was £212,000 above budget, reflecting higher charges received from fees and charges for archive services.

3.2 Balance Sheet

At 31 March 2008, NAS reported net assets of £15.0 million (2007: £10.4 million).

Table 2: Balance sheet

	As at 31/07/08 £'000	As at 31/07/07 £'000
Fixed assets	15,611	10,705
Debtors	437	412
Cash at bank and in hand	6	5
Creditors due within one year	(784)	(725)
Provisions	240	0
Net Assets	15,030	10,397
General Fund	10,598	8,573
Revaluation Reserve	3,497	1,689
Donated Assets Reserve	935	135
Total Taxpayer's Equity	15,030	10,397

Source: National Archives of Scotland Financial Statements 2007-08

Fixed assets

The main capital project during the year is the construction of the ScotlandsPeople Family History Centre, a joint project with the General Register Office of Scotland, and the Court of the Lord Lyon. The Centre will allow the public to access historical records from all 3 bodies on one site. Capital expenditure of £2.5 million was expended on the Centre during the year. The building work was completed in July 2008 and the Centre will open to the public on 12 January 2009.

In 2006-07, NAS purchased the Dalhousie papers from the Earl of Dalhousie. The papers consist of a rich variety of historical documents, and the funding was provided by the Scottish Government and the National Heritage Memorial Fund. During 2007-08, NAS recognised the £0.8 million contribution from the National Heritage Memorial Fund as a donated asset.

Other significant capital projects underway include

- the refurbishment of General Register House
- the digitisation of the General Register of Sasines, and the records of the ecclesiastical courts.

4 Financial Statements

4.1 Audit Opinion

We gave an unqualified opinion on the financial statements of NAS for the 2007-08 financial year. We were able to conclude that the financial statements of NAS give a true and fair view of the financial position for the period from 1 April 2007 to 31 March 2008 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.

4.2 Audit Quality

The draft financial statements were presented for audit on 30 July 2008, in line with the agreed timetable. The accounts and supporting working papers continue to be of a good standard and, as a result, few adjustments were required to be processed following our audit.

4.3 Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated by NAS for reviewing the effectiveness of the system of internal control and the identification and management of risk.

We are satisfied that the Statement complies with Scottish Government 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 obtained from our normal audit work.

4.4 Accounting issues

General Register House

NAS has spent significant sums in recent years on the refurbishment of General Register House. Much of this expenditure has been capitalised in line with the stated accounting policies for the capitalisation of fixed assets. However, there is a risk of impairment, if the carrying value of General Register House is found to exceed the market value at 31 March 2009.

NAS should undertake a full revaluation of General Register House as at 31 March 2009 in order to assess the level of impairment.

Action plan point 1

Creditors cut-off

Our audit identified errors in NAS's arrangements for ensuring creditor payments are recorded in the correct accounting period. Our review of the year end accruals and trade creditor listings identified one invoice that should have been included in creditors at the year end. We also identified one invoice that had been included in accruals at the year end, but which related to the 2008-09 financial year.

NAS should review the procedures for identifying the allocation of creditor payments to ensure payments are recorded in the correct accounting period.

Action plan point 2

Ledger Reconciliations

Our audit identified that reconciliations between the following financial systems and the ledger had not been completed at the financial year end:

- the opening balance of fixed assets to the general ledger
- the year end sundry debtors listing to the general ledger.

The eventual completion of these reconciliations identified errors in the financial statements which required subsequent adjustment.

Management should ensure that key feeder systems are reconciled in full to the general ledger at the balance sheet date, and that any differences are investigated and cleared. This will improve the accuracy of the financial statements presented for audit.

Action plan point 3

4.5 Misstatements identified by the audit

This is a summary of accounting adjustments identified by the audit. Table 3 below lists the adjusted audit differences following our audit.

Table 3: Unadjusted audit differences

Adjustments effecting reported results	Operating Cost Statement		Balance Sheet	
	Dr £	Cr £	Dr £	Cr £
Reallocation of fixed assets opening balances			4,581	4,581
Invoice relating to 2007/08 not included in creditors/accruals	14,100			14,100
Removal of creditor invoice relating to 2008/09 financial year		12,865	12,865	
Adjustment for unexplained difference between trial balance and sundry debtors schedule	5,073			5,073

There are no remaining unadjusted differences to report.

5 Governance

5.1 Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

As part of our 2007-08 audit, we assessed the adequacy of NAS's governance arrangements against good practice standards for the public sector. We examined:

- the operation and effectiveness of key controls over IT systems and applications
- the operation and effectiveness of key controls over financial systems and processes (financial management and budgetary control, income and accounts receivable, fixed assets and provisions)
- the progress in implementing agreed recommendations arising from our 2006-07 interim audit.

5.2 Findings

We found that governance arrangements at NAS operated well and within a generally sound control environment. NAS complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of NAS.

5.3 IT Systems and Applications

IT systems are critical to the ability of NAS to deliver services to its customers. In addition, appropriate security procedures are required to ensure the integrity and security of data held on the systems. NAS is also required to have appropriate systems and procedures in place to ensure compliance with the requirements of the Data Protection Act 1998. During the year we reviewed the effectiveness of the University's internal control procedures covering IT security, disaster recovery, and compliance with Data Protection Act requirements.

We found that controls over IT systems and applications generally operate well. However we noted 2 high risk control weaknesses:

- there is no formally documented IT strategy
- there is no disaster recovery plan in the event of a failure of the IT systems.

In addition, we noted 6 medium risk and 2 low risk control points. Our findings have been discussed and agreed with management and are summarised in the action plan in Appendix B.

5.4 Internal Audit

The Scottish Government Internal Audit Service provided internal audit services to NASS during 2007-08 and have concluded that NAS operated within an adequate framework of internal control during the year.

5.5 Follow up of prior year recommendations

NAS has made some progress in implementing recommendations made in our report on the 2006-07 audit, however only two out of the six recommendations are now fully implemented. Of the remaining four recommendations, one recommendation is in progress and three have not yet been implemented.

The three outstanding recommendations are:

- ensuring 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
- developing a budget timetable to formalise current practice and track the preparation of the annual budget against this
- setting out a more formal plan on how NAS intends to measure, monitor and report on the achievement of best value and efficiency going forward.

6 Performance

6.1 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.

The Accountable Officer 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.

6.2 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 Family History Centre, a joint project with the General Register Office for Scotland and the Court of the Lord Lyon.
- joint projects with Registers of Scotland to digitise the General Register of Sasines; and
- the ScotlandsImages project in partnership from the National Museums of Scotland, the National Library of Scotland and Royal Commission on the Ancient and Historical Monuments of Scotland.

In 2006-07, we reported that NAS had not yet developed a formal approach for measuring efficiency savings or continuous improvement that can be embedded in the corporate planning and reporting cycle. Some work has been undertaken during the year to develop business planning, however, NAS has not yet formalised its approach to achieving best value.

Action plan point 4

6.3 Efficiency

The Scottish Government has set NAS an efficiency saving target of £158,000 over the next 3 years.

NAS is required to formalise an efficiency savings plan which will identify how it will achieve the targets set by the Scottish Ministers.

Action plan point 5

Appendix A: Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Financial statements					
1	<p>The ScotlandsPeople Family History Centre has now been completed, and significant refurbishment works have been carried out on General Register House.</p> <p>There is a risk that the carrying value of General Register House now exceeds the market value.</p>	High	NAS should undertake a revaluation of General Register House as at 31 March 2009, and consider the need for any impairment charges.	A revaluation of General Register House has been commissioned.	December 2009
2	During our audit, we noted errors in the allocation of creditor payments to the correct accounting period.	Medium	NAS should ensure procedures are in place to correctly records creditors in the correct accounting period.	Accounts close-down procedures will be reviewed for the production of the 2008-09 accounts.	March 2009
3	<p>There was 2 differences noted in the reconciliation of the opening balance of fixed assets, and the year end sundry debtors listing to the general ledger.</p> <p>2 audit adjustments were posted to correct the errors identified.</p>	Medium	NAS should ensure all key financial systems are reconciled to the general ledger at the balance sheet date, and any differences are reconciled and cleared.	Accounts close-down procedures will be reviewed for the production of the 2008-09 accounts.	March 2009

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Performance					
4	In 2006-07, we reported that NAS had not yet developed a formal approach for measuring efficiency savings or continuous improvement that can be embedded in the corporate planning and reporting cycle. Some work has been undertaken during the year to develop business planning, however, NAS has not yet formalised its approach to achieving best value.	Medium	NAS should review its performance management arrangements to ensure compliance with Best Value guidance issued by Audit Scotland.	We will update our guidance as part of our corporate planning review.	June 2009
5	The Scottish Ministers have set NAS the target of achieving £158,000 in efficiency savings targets over the next 3 years	High	NAS should have in place a plan which sets out how it will achieve the Scottish Minister's efficiency targets. The progress in achieving the targets should be monitored and reported to management on a regular basis.	We plan to meet efficiency savings targets through digitisation of records and a review of staffing requirements.	March 2009

Appendix B: IT Systems and Applications Findings

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Disaster Recovery					
1	<p>We noted that the Agency does not have a disaster recovery plan. This plan would detail actions to recover the IT systems in the event of a disaster that affects IT operations. However, we understand that there is a project to produce this plan by the end of this year</p> <p>There is a risk that business operations could not be recovered in a reasonable time in the event of a disaster. This could have a detrimental impact on customer services and the Agency's reputation.</p>	High	<p>The Agency should complete the disaster recovery project with utmost priority. Once completed, this plan should be communicated to relevant members of staff.</p> <p>The plan should be tested at least on an annual basis. This test should validate the effectiveness of the recovery arrangements. Test results should be formally documented and analysed so that any necessary amendments to the plan can be made.</p> <p>The plan should be updated on a regular basis to reflect changes in the Agency or IT infrastructure.</p>	Accepted. While we do not have a single control document, we do have a number of contingency and risk assessment strategies in place. It is however, a corporate objective of ICT branch to establish a formal disaster recovery and business continuity plan this financial year.	<p>Dave Brownlee, Deputy Keeper</p> <p>31 December 2008.</p>
IT Strategy					

No	Finding	Risk	Recommendation	Management Response	Implementation Date
2	<p>We noted that the IT strategy is not formally documented. Furthermore, we understand that a meeting will be convened in Autumn to agree on a strategy for application development.</p> <p>There is a risk that IT projects may not effectively support the Agency's business strategy.</p>	High	<p>The Agency should document its IT strategy. This document should be approved by the management board and detail the main IT projects for the following years.</p> <p>The IT strategy should be updated at least every three years</p>	<p>Accepted.</p> <p>As the report states, an applications development strategy will be developed in the Autumn. A desktop and server review strategy is also being undertaken this year. A scoping study on how we take forward preservation of electronic records is being undertaken and will report to Management Board by the end of 2008. All of these elements will feed into our overall ICT strategy.</p>	George Mackenzie, Keeper. 31 March 2009.
Privileged access					
3	<p>We noted that one user account had privileged access to the network without requiring it. This privileged access was removed when brought to management attention.</p> <p>Furthermore, we understand that no periodic revalidation of user access rights is performed in the Agency.</p>	Medium	<p>A biannual process to revalidate user accounts should be implemented. Business managers should confirm that logical access rights for their team members are commensurate with current job duties.</p> <p>This review should cover operating systems and</p>	<p>Accepted.</p> <p>In attempting to resolve an issue with user permissions, there was an oversight by a member of our ICT staff. System procedures have been revised to take account of this.</p>	Keith Dargie, ICT Manager 31 July 2008.

No	Finding	Risk	Recommendation	Management Response	Implementation Date
	There is a risk that individuals may gain unauthorised access to data.		<p>applications. Evidence of this review and any amendments in logical access rights should be retained.</p> <p>Privileged access should only be granted to individuals that require it to perform their job role.</p>		
Leavers					
4	<p>We selected a sample of 10 individuals who joined the Agency in the last financial year. We noted that one out of these 10 individuals had already left the Agency at the time of our visit. However, it was noted that the network account for this individual had not been disabled.</p> <p>We noted that this account was disabled when brought to management attention.</p> <p>There is a risk that unauthorised access to data may be gained.</p>	Medium	User accounts belonging to leavers should be disabled or deleted on their leaving date.	<p>Accepted.</p> <p>The workflow actions arising from our staff change process will be amended so that ICT actions are undertaken first</p>	<p>Keith Dargie, ICT Manager.</p> <p>31 August 2008.</p>

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Audit logs					
5	<p>We noted that there are no formal procedures to review the Windows and firewall audit logs on a regular basis.</p> <p>There is a risk that unauthorised activity on the network may go undetected.</p>	Medium	<p>The Agency should implement a process to perform a weekly review of the network and firewall logs. Such reviews should be documented, and action points dealt with as appropriate.</p>	<p>Noted.</p> <p>We are aware of this but limited resources have resulted in only ad hoc checks being carried out. We will try to ensure that more regular checks are undertaken from now on. We have also initiated a review of our Internet access policy.</p>	<p>Dave Brownlee, Deputy Keeper.</p> <p>31 March 2009.</p>
Penetration testing					
6	<p>We noted that no penetration testing has been performed in the Agency. However, we understand that a test is planned for the end of this year. Furthermore, we noted that the Agency's website is hosted internally</p> <p>There is a risk that unauthorised access to data is gained or IT operations are disrupted as a result</p>	Medium	<p>Penetration testing should be performed at least on an annual basis to proactively detect vulnerabilities in IT security controls that may be exploited by intruders.</p> <p>Penetration tests should also be performed after implementing a significant change in the IT security infrastructure.</p>	<p>Accepted.</p> <p>It is a corporate objective for 2008-09 to carry out a security review of NASnet.</p>	<p>Keith Dargie, ICT Manager.</p> <p>28 February 2009.</p>

No	Finding	Risk	Recommendation	Management Response	Implementation Date
	of a hacking attack.		Any vulnerability that is identified should be promptly addressed through implementing manual or automated controls.		
Data protection					
7	<p>We noted that the Agency has a data protection policy. In addition, the Agency has documented codes of practice on both administrative and archival information. These two documents detail guidelines and procedures for members of staff to comply with the data protection act. However, we understand that these two documents have not been approved by senior management and consequentially, have not been officially communicated to members of staff.</p> <p>There is a risk that members of staff may contravene the data protection act by not following appropriate procedures.</p>	Low	<p>Senior Management in the Agency should approve the codes of practice on administrative and archival information at the earliest convenience. Once approved, these codes should be formally communicated and made available to members of staff.</p> <p>Staff should receive periodic communications or attend annual training sessions to remind them about their responsibilities regarding the data protection act.</p>	<p>Accepted.</p> <p>The Management Board will formally approve the codes of practice at their next scheduled meeting. We shall draw these again to the attention of all staff and ensure that they are kept up-to-date periodically on their responsibilities for data protection.</p>	<p>Jenny Cutts, Business Manager.</p> <p>30 September 2008</p>

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Audit software					
8	We noted that the Agency does not have a software tool that automatically reports the number of software licenses installed across the PC estate.	Low	The Agency should consider implementing a software audit tool. This utility would provide IT staff with automated reports about the number of software licenses installed in servers and PCs with the consequential efficiency gains.	Noted. We have formal procedures in place to manage and control the installation of software. The software library records details of all deployed software throughout the organisation. We shall, however, consider implementing a software audit tool.	Keith Dargie, ICT Manager. 31 December 2008.



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