

Key Issues Memorandum

The National Archives of Scotland

For the year ended 31 March 2009

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We intend to give an unqualified opinion on the financial statements of NAS for 2008-09 but a qualified opinion on the regularity of transactions undertaken during the year.

1 Executive summary

The purpose of this memorandum is to highlight the key issues emerging from our 2008-09 audit. It is also used to report to management on compliance with the Code of Audit Practice and the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

Financial statements	
Annual Accounts	<ul style="list-style-type: none"> • We intend to give an unqualified opinion on the 2008-09 accounts but a qualified opinion on the regularity of transactions during the year as NAS has overspent against its 2008-09 budget. • The quality of the information presented for audit was not satisfactory and a significant number of adjustments were required to be processed following our audit.
Asset revaluation	<ul style="list-style-type: none"> • Land and buildings were revalued at 31 March 2009 resulting in an impairment charge of £2.9 million being charged to the Operating Cost Statement.
International Financial Reporting Standards	<ul style="list-style-type: none"> • NAS has correctly restated its 2007-08 opening balances to comply with IFRS reporting requirements. NAS is required to formally report under IFRS from 2009-10 and shadow accounts for 2008-09 are required to be submitted for audit by 30 November 2009. Urgent action is now required to achieve this reporting deadline.

Governance	
Budgeting and financial reporting	<ul style="list-style-type: none"> • Our audit identified significant weaknesses in financial management and budgetary control arrangements.
Overall governance	<ul style="list-style-type: none"> • NAS's strategic management arrangements are not yet fully developed. Management recognise this and have instigated a strategic review of activities which will be finalised by February 2010.
Audit Committee arrangements	<ul style="list-style-type: none"> • Audit Committee arrangements comply in principle with Scottish Government good practice guidelines.

Performance	
Best Value	<ul style="list-style-type: none">• NAS carried out a Best Value self-assessment as part of the audit and concluded that it has well developed processes in 5 of the 9 areas (responsiveness and consultation, commitment and leadership, joint working, sustainable development and equal opportunities) and is developing processes in the other 4 areas.
Efficient government	<ul style="list-style-type: none">• NAS achieved its efficiency targets for the year, but needs to plan to achieve a higher level of efficiency savings to meet forecast reductions in future funding.
Operational performance indicators	<ul style="list-style-type: none">• NAS's performance indicators are not fully aligned to corporate objectives and there is scope to develop performance targets around outputs, outcome and impact measures. We note that work on revised performance indicators is underway.

We would like to take this opportunity to record our appreciation to all NAS staff who were involved in the audit. We note particularly the kind assistance provided by the finance team who were short-staffed during the audit process.

Grant Thornton UK LLP
28 October 2009

NAS's inability to forecast the financial outturn with accuracy was the key financial statements audit issue this year

2 Financial statements

2.1 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 The National Archives of Scotland as at 31 March 2009 and of the 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 (FRM) and directions made thereunder by the Scottish Ministers
- 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
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

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
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

2.2 Annual Accounts 2008-09

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 2008 to 31 March 2009.

We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

The accounts record that NAS incurred a small overspend of £35k against its budget for the year representing 0.3% of total budgeted expenditure. As this overspend has not been authorised by Parliament, we have been required to qualify our audit report on the regularity of transactions during the year.

2.3 Audit issues

Our audit identified a number of issues impacting on the financial statements and our findings are set out in the following table:

	Issue	Commentary
1	<p>Budget overspend</p> <p>The first draft accounts presented for audit recorded a £25k underspend against Resource Budget allocation of £10,575k (0.2% of budget) and a £9k underspend on its Capital Budget allocation of £2,150k (0.4% of budget).</p> <p>However, our audit identified a number of significant audit adjustments, mainly relating to errors in recording fixed asset transactions. Management also subsequently identified prepayments and debtor accruals which had been omitted from the first draft accounts.</p> <p>Full details of the adjustments are given in section 2.4.</p>	<p>Year end accounting and financial reporting arrangements are currently not sufficient to provide management with adequate assurance in relation to the year end financial position.</p> <p>15 audit adjustments were processed following our audit, resulting in a small budget overspend for the 2008-09 financial year which will require us to qualify our audit report on regularity. NAS should take urgent action to review its financial management and reporting arrangements to prevent any future recurrence of this position.</p>
2	<p>Financial reporting and audit</p> <p>The NAS finance team was not well prepared for the audit this year. In particular, the first draft accounts were incomplete and information requested in advance was not available early in the audit process. The first and second drafts of the financial statements contained a number of errors and omissions, and a significant number of accounting errors were identified through the audit process. As a result, the accounts audit took significantly longer than planned. The finance team's performance was affected by the absence of a key staff member during the audit process.</p>	<p>The finance team is small and has been adversely affected this year by the long term absence of a key staff member. However, there is an urgent need to review training requirements for finance staff and to assess whether current arrangements for the provision of financial advice and support to NAS is sufficient.</p> <p>We have incurred significant unplanned costs on the audit this year due to deficiencies in the accounts preparation process and additional work created by the increased risk of a budget overspend which required us to alter our audit strategy and increase audit testing. In light of this, we have agreed additional audit fees of £6k plus VAT to cover a proportion of the additional costs we incurred on the audit this year.</p>

	Issue	Commentary
3	<p>Revaluation of land and buildings</p> <p>Due to current market conditions and the high value of capital expenditure recognised in the year, an interim valuation was required to ensure the accounts fully reflect the current value of land and buildings. The result has been a downward valuation in General Register House of £3.1 million and in Thomas Thomson House of £0.5 million. West Register House saw a small increase in value overall.</p> <p>The valuation movements in respect of Thomas Thomson House and West Register House were able to be fully transferred to the Revaluation Reserve. However, there was only £187k in the revaluation reserve available to offset the downward valuation of General Register House with the remaining balance of £2.9 million required to be accounted for as an impairment charge in the Operating Cost Statement.</p> <p>NAS had budgeted for this impairment and had requested and obtained budget approval from Scottish Government in the Spring Budget Review in 2008-09.</p>	<p>Under the provisions of the FReM and FRS 11 <i>Impairment of fixed assets and goodwill</i>, any revaluation which reversed a previous gain requires to be released to the Revaluation Reserve on an asset by asset basis. Where the Revaluation Reserve balance for an individual asset is insufficient to relieve the downward revaluation, the additional charge requires to be expensed to the Operating Cost Statement.</p> <p>We audited the calculation of the revaluation adjustment and subject to the processing of an audit adjustment of £109k (which arose as revaluation calculations for 2 of the properties had been double counted), conclude that the revaluation adjustment is correctly calculated and appropriately reported.</p>
4	<p>International Financial Reporting Standards (IFRS)</p> <p>Central government bodies are required to prepare their accounts on the basis of IFRS from 2009-2010. In readiness for this, NAS is required to:</p> <ul style="list-style-type: none"> • prepare an opening 2008 IFRS-based balance sheet • produce shadow IFRS accounts for 2008-09 by 30 November 2009. <p>The transition to IFRS may be complex, with significantly enhanced disclosures and changes in accounting policy that may have material effects on the results and on budgeting.</p>	<p>NAS was late in submitting its 2007-08 IFRS restated balance sheet for audit. We reported our audit findings in April 2009 and concluded that NAS had made a good start in its IFRS preparations but needed to maintain momentum to enable it to produce shadow IFRS accounts by the end of November 2009 in line with the Scottish Government's timetable. The delay in finalising the 2008-09 financial statements under UK GAAP has meant that preparation of the shadow IFRS accounts was delayed, but we understand that work on producing the accounting policies and notes to the accounts is now underway. We currently plan to audit the 2008-09 shadow IFRS accounts during December 2009.</p>

	Issue	Commentary
5	<p>Statement on System of Internal Control (SIC) The Accountable Officer is required to report on the work he has carried out to ensure that NAS operates in accordance with the Scottish Public Finance Manual and that a sound system of internal control is operated.</p>	<p>We reviewed the letters of assurance submitted by department heads to the Accountable Officer.</p> <p>The Accommodation Services Director states in his letter of assurance that "many of the standard maintenance contracts had been allowed to expire without notification to the various contractors involved extending their contracts for a period of time". The Accountable Officer considered this low risk and not requiring disclosure in the SIC as NAS is still able to call on the services of building maintenance companies when required and has since negotiated a new Facilities Management Contract commencing in early 2010. We accept this view but draw it to your attention so that you can ensure that the matter has been dealt with appropriately.</p> <p>The Accountable Officer has inserted an additional paragraph explaining that the circumstances which led to the budget overspend in this year's accounts and to provide an assurance that "Appropriate actions will be taken to address any weaknesses that have been identified".</p>
6	<p>New disclosures required this year The 2008-09 FReM requires compliance with standards FRS 25 Financial Instruments: Disclosure and Presentation, FRS 26 Financial Instruments: Measurement, Recognition and Derecognition, and FRS 29 Financial Instruments: Disclosures.</p> <p>The FReM (chapter 7) also requires additional disclosures in the Foreword to the Accounts on environmental matters, sustainability, and staff sickness absence data.</p> <p>The draft financial statements did not contain disclosure on these matters.</p>	<p>The final financial statements have been updated to include the appropriate financial instruments disclosures.</p>

	Issue	Commentary
7	<p>Accounting policies</p> <p>The disclosures in the accounting policies on depreciation rates do not accurately reflect the actual rates applied to certain classes of fixed asset and did not explain the policy on capitalisation of staff costs.</p>	<p>The accounting policy for depreciation has been updated to reflect existing practice for depreciating assets and for capitalising staff costs.</p>
8	<p>Remuneration Report</p> <p>NAS is required to disclose the salaries of senior management within specified range bands.</p>	<p>One senior manager retired at 31 January 2009, but his full year salary is disclosed in the remuneration report. An adjustment has been made to the accounts to apportion his salary for a 9 month period.</p>
9	<p>Capitalisation of staff costs</p> <p>During the year NAS incurred significant costs on digitising and indexing historical archives. Whilst some of the costs incurred on these assets were paid to external providers, a significant part of the work was carried out by staff employed by NAS. Management have capitalised a proportion of staff costs to the sum of £464k. No detailed timesheets were available and management estimated the proportion of time spent by certain staff on this work.</p>	<p>We reviewed the calculation of the capitalisation of these staff costs and conclude that the adjustment is appropriate and reasonable. We will, however, require the Accountable Officer to provide us with a representation confirming his view of the accuracy of the calculation. We recommend that NAS maintain appropriate time records for staff working on capital projects going forward.</p>

2.4 Audit adjustments

Processed adjustments affecting the results are set out below.

	Balance Sheet		Operating Cost Statement	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Correction to revaluation of General Register House	Tangible fixed assets 109			Impairment charge 109
Debtor for staff recharge to ROS under-provided	Debtors 13			Income 13
One year software license incorrectly capitalised		Intangible fixed assets 17	Expenditure 17	
Under-provision of income from BrightSolid	Debtors 31			Income 31
Under-accrual for final retention on building contract	Fixed assets 73	Creditors 73 Revaluation Reserve 73	Impairment charge 73	
Under-accrual for March digitisation invoice	Tangible fixed assets 71	Creditors 71		
Under-accrual for digital camera received in March 2009	Tangible fixed assets 58	Creditors 58		
Depreciation not provided on digitised images		Tangible fixed assets 5	Expenditure 5	
Intangible assets that had not been depreciated		Intangible fixed assets 38	Expenditure 38	
Debtor for Scottish Catholic Archives under-provided	Debtors 27	Tangible fixed assets 27		

	Balance Sheet		Operating Cost Statement	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Additional audit fee due to extra work		General Fund 7	Expenditure 7	
Reallocation of digitisation costs from 2007-08 to tangible fixed assets from intangible fixed assets	Tangible fixed assets 56	Intangible fixed assets 56		
Additional prepayments identified by management	Debtors 44			Expenditure 44
Depreciation incorrectly charged to the OCS in 2007-08 rather than the donated asset reserve	Donated asset reserve 32			Expenditure 32
Adjustment to cost of capital charge		General Fund 5	Cost of capital 5	

2.5 Unadjusted differences

There are 3 unadjusted differences, only one of which affected the outturn (an additional accrual of £9k). As in previous years, management had only considered accruals in excess of £10k in preparing the accounts.

	Balance Sheet		Operating Cost Statement	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Accrual for electricity		Accruals 9	Expenditure 9	
Costs of digitising the Scottish Catholic Archives which had been expensed in 2007-08	Intangible assets b/f 39	General fund b/f 39		
Costs of digitising the Scottish Catholic Archives - reallocate from tangible assets to intangible assets	Intangible assets b/f 12	Tangible assets b/f 12		

Arrangements for financial management and budgetary control need significant improvement

3 Governance

3.1 Our role

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 2008-09 audit, we assessed the adequacy of NAS's governance arrangements against good practice standards for the public sector. We issued an Interim Report to Management in July 2009 which contained a number of recommendations. Additional comments are:

	Issue	Auditor response and conclusion
1	<p>Financial Management and Budgetary Control</p> <p>Robust budgeting and financial reporting processes are not in place and this has resulted in this year management being unable to predict with reasonable certainty the year end financial outturn of the organisation.</p> <p>We noted that NAS has undertaken the digitisation and online access of the Scottish Catholic Registers during 2008-09 which committed the organisation to incur costs on behalf of a third party. NAS also undertook the creation of the Scottish Tartans Register at the request of the Scottish Government. Both of these projects were undertaken in the absence of a fully costed business case.</p>	<p>NAS will be required to operate under tight budget constraints over the medium term as the impact of the economic recession takes effect on public sector funding. It is, therefore, critical that expenditure is very closely controlled and within budget. In particular, NAS should not commit to incurring costs on behalf of third parties in the absence of a full business case signed off by management and approved by the Management Board which ensures public funds are safeguarded.</p> <ul style="list-style-type: none"> • NAS should ensure it has full and complete information in relation to its financial position when finalising its Spring Budget Review submissions as this presents the last opportunity for budget adjustments in each financial year. In particular, responsibilities for the setting and control of budgets should be more fully defined • budgets should be set in accordance with pre-determined approved policy objectives • revenue and capital budgets should be subject to detailed periodic monitoring of performance against budget outturn

	Issue	Auditor response and conclusion
		<ul style="list-style-type: none"> • significant variances from budget should be promptly identified, reported and addressed. <p>NAS currently prepares an annual budget and prepares monthly budget reports that are presented to the Management Board. However, department heads are not fully involved in the process, budget timetables routinely slip, and reporting against budget is irregular and, in some cases, inaccurate.</p> <p>We note that NAS expects to see a significant decline in Sasine Income due to a joint project with the Registers of Scotland. In the context of forecast reductions in future funding, NAS must ensure it has comprehensive plans in place to address the potentially significant reduction in available resources.</p>
2	<p>Scottish Public Finance Manual (SPFM) NAS is required to operate in accordance with the SPFM in its approach to governance.</p>	<p>NAS generally operates in accordance with the principles of the SPFM, but there are a number of key governance arrangements which remain in the process of being finalised. In particular, NAS needs to improve its corporate planning arrangements to ensure key documents, such as the corporate plan and ICT strategy, are completed timeously. We understand that a Strategic Review, which will look at all of these areas, is underway. It is due to be finalised by February 2010 and, as a result, the Corporate Plan for 2010-11 should be approved before the start of that year.</p>

	Issue	Auditor response and conclusion
3	<p>Audit Committee arrangements In 2008 the Scottish Government published a new handbook for the operation of audit committees in the public sector.</p>	<p>The Audit Committee completed a self-assessment checklist in October 2009 and concluded that it complies with all key requirements of the Audit Committee Handbook.</p> <p>Our audit confirms that the Audit Committee complies with the key principles of the Handbook, but further development of scrutiny arrangements would improve overall governance. In particular:</p> <ul style="list-style-type: none"> • two of the Audit Committee's three members also sit on the Management Board which reduces independence • the Audit Committee does not have formal arrangements in place to assess the performance of internal and external audit • arrangements for a private meeting with the auditors at least once each year are not yet in place • the Audit Committee does not routinely scrutinise the effectiveness of NAS's risk management arrangements.




3.2 Accounting systems and internal control



We have applied our risk methodology to your audit. This approach allows us to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. See 'The small print' for further details of our approach.

Financial Control issues were reviewed during our interim audit procedures, and findings highlighted to you in our interim reports, dated July 2009.

Further observations noted during our final audit regarding your internal controls are detailed in the table below.

Key to assessment of internal control deficiencies

-  Material weakness - risk of material misstatement
-  Significant deficiency - risk of significant misstatement
-  Deficiency - risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendation
1		Year End Accounts Procedures Our audit identified a number of significant accounts adjustments particularly relating to errors in accruals, recording fixed asset transactions and compliance with accounts disclosure requirements.	NAS should review its year end accounts close down procedures to ensure the annual accounts presented for audit meet disclosure requirements and accurately record all financial transactions for the year.
2		VAT NAS has only claimed a percentage of its input tax on certain expenses and relies on information provided to it some time ago by an external advisor. Over time, the appropriate percentages can change and may need revision.	We recommend that NAS requests a representative from SG to review its VAT procedures to ensure that recoveries are maximised.

Best Value arrangements need further development and NAS needs to improve performance reporting arrangements

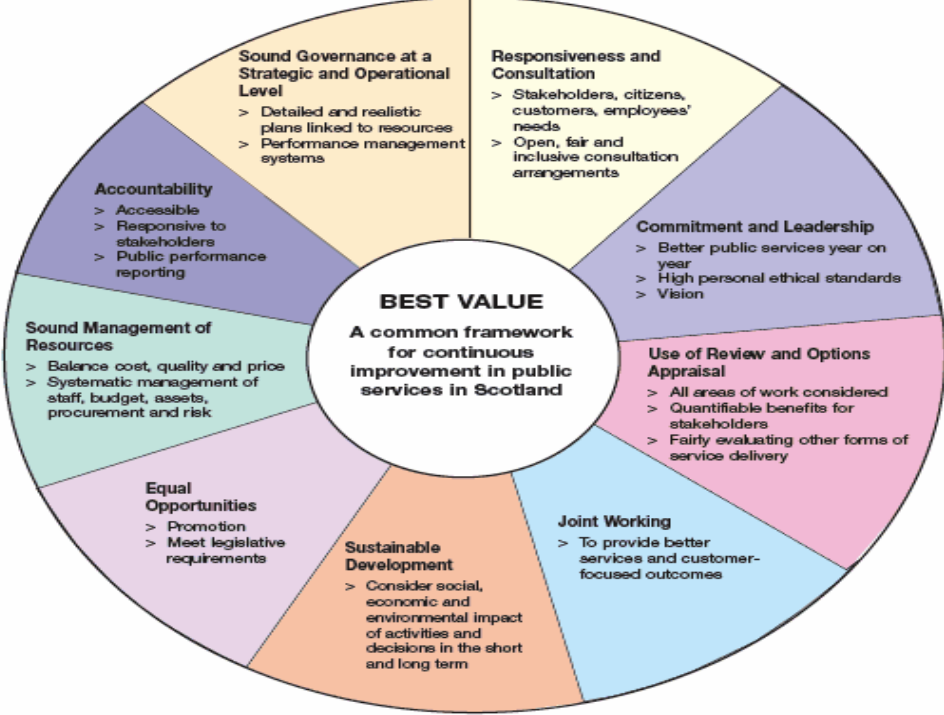
4 Performance

4.1 Our role

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money arrangements. As part of our annual audit we review 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. NAS is now also expected to achieve 2% efficiency savings annually. We review progress against performance targets, and plans to improve organisational performance.

	Issue	Auditor response and conclusion
1	<p>Best Value The Accountable Officer has a duty to ensure public resources are used economically, efficiently and effectively. Since April 2002 there has also been a duty on Accountable Officers "to ensure arrangements are in place to secure Best Value".</p>	<p>NAS carried out a Best Value self-assessment as part of the audit and concluded that it has well developed processes in 5 of the 9 areas (responsiveness and consultation, commitment and leadership, joint working, sustainable development and equal opportunities) and is developing processes in the other 4 areas. We note that, as part of the strategic review process, NAS is reviewing its approach to corporate development and leadership. We will keep this area under review and follow up progress in developing Best Value arrangements as part of our 2009-10 audit.</p>

Issue	Auditor response and conclusion
	 <p>BEST VALUE A common framework for continuous improvement in public services in Scotland</p> <ul style="list-style-type: none"> Sound Governance at a Strategic and Operational Level <ul style="list-style-type: none"> > Detailed and realistic plans linked to resources > Performance management systems Responsiveness and Consultation <ul style="list-style-type: none"> > Stakeholders, citizens, customers, employees' needs > Open, fair and inclusive consultation arrangements Commitment and Leadership <ul style="list-style-type: none"> > Better public services year on year > High personal ethical standards > Vision Use of Review and Options Appraisal <ul style="list-style-type: none"> > All areas of work considered > Quantifiable benefits for stakeholders > Fairly evaluating other forms of service delivery Joint Working <ul style="list-style-type: none"> > To provide better services and customer-focused outcomes Sustainable Development <ul style="list-style-type: none"> > Consider social, economic and environmental impact of activities and decisions in the short and long term Equal Opportunities <ul style="list-style-type: none"> > Promotion > Meet legislative requirements Sound Management of Resources <ul style="list-style-type: none"> > Balance cost, quality and price > Systematic management of staff, budget, assets, procurement and risk Accountability <ul style="list-style-type: none"> > Accessible > Responsive to stakeholders > Public performance reporting <p>NAS recognises that its arrangements for the systematic achievement of economy, efficiency, effectiveness and Best Value need further development, but has not yet finalised a clear strategy setting out how it will address identified areas of under-performance. There is now a need for NAS to finalise its draft assessment of performance against Best Value good practice guidelines, and ensure best value principles are embedded across all aspects of service planning and delivery.</p> <p>In particular, NAS would benefit from a more structured approach to reviewing organisational performance, such as adopting the balanced scorecard or European Foundation for Quality Management (EFQM) model.</p>

	Issue	Auditor response and conclusion
2	<p>Efficient Government NAS is expected to contribute 2% efficiency savings annually to meet Ministerial targets requiring an annual saving of £158k per annum.</p>	<p>NAS achieved its efficiency savings target for the year, but faces a significant challenge to continue to meet expected efficiency savings at current levels of service provision. Arrangements for identifying and reporting efficiency savings are weak and require further development.</p>
3	<p>Operational performance indicators The Management Board sets strategic objectives for the next 3 to 5 years in the corporate plan. 10 Key Performance Indicators (KPI's) were set in its Corporate Plan 2008-09 to 2010-11 and 7 of these were achieved in full. However, the KPI's are mostly focused on improving the numbers of people accessing archive records and on the speed taken to respond to requests. KPI's do not fully reflect all of the objectives set out in corporate planning documentation.</p>	<p>There remains scope to ensure KPI's more accurately reflect corporate priorities set out in the corporate plan. The current performance indicators adopted by NAS tend to be input focussed, and there is scope for further development of outcome, output and impact performance measures, including measures of customer satisfaction.</p> <p>NAS does not currently report its performance systematically and transparently. We note, for example, that an Annual Report is not prepared or published setting out how NAS performed against its Corporate Plan objectives.</p>

'The small print' sets out the basis on which we have undertaken your audit

5 The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Accountable Officer of NAS and management.

The purpose of this memorandum is to highlight the key issues affecting the results of the NAS and the preparation of the financial statements for the year ended 31 March 2009.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260 and our Code of Audit Practice responsibilities.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of NAS.

This memorandum has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to NAS arising under the Code of Audit Practice.

Responsibilities of management and auditors

Management are responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that management confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

NAS management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Accountable Officer that it has done so.

The Accountable Officer is required to review NAS's internal financial controls. In addition, the Accountable Officer is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Accountable Officer should receive reports from management as to the effectiveness of the systems that have been established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£ incl VAT
Audit - basic fee	59,000
Additional fee	6,900
Total	65,900

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
1	<p>Financial management and budgetary control</p> <p>NAS was not able to predict with sufficient accuracy its financial position for 2008-09 and budget monitoring reports are not timeous or sufficiently accurate to support effective financial management.</p>	<i>High</i>	<p>NAS should review and revise its financial planning, monitoring and reporting arrangements to ensure it meets the highest standards of financial stewardship expected of government bodies.</p> <p>We will provide a separate paper to management setting out more detailed recommendations in this area.</p>	<p>We accept that in the severe financial constraints in which we are operating we need further to improve our budget monitoring. In mitigation, our monitoring procedures identified six months into the year that we were heading for a significant overspend. A number of steps were taken to bring spending back on track, but this has not prevented a small overspend on budget at year end. Apart from ICT and Accommodation, Branch Heads have very limited budgetary responsibilities. Staff costs account for the major part of the NAS budget and these are monitored very closely at the Centre.</p>	31 December 2009
2	<p>Financial Reporting and Audit</p> <p>The finance team was ill-prepared for the audit, information was late, incomplete and a</p>	<i>High</i>	<p>We recommend that NAS reviews:</p> <ul style="list-style-type: none"> • the training requirements for finance staff • the adequacy of current arrangements for the provision of 	<p>As reported elsewhere in the KIM, the loss of a key member of staff on unexpected long-term sick leave at a crucial stage of the audit cycle had a major effect</p>	31 December 2009

No	Finding	Risk	Recommendation	Management Response	Implementation date
	significant number of audit adjustments were required.		financial advice and services and <ul style="list-style-type: none"> its annual accounts close down procedures. 	on our preparation. Nonetheless, we accept that we require greater capacity in our finance team and external advice on financial matters, particularly at accounts close down. We are currently in negotiation with SG to investigate how this can best be provided.	
3	Revaluation of land and buildings NAS can have significant annual capital spend and has a large existing asset base. Impairments could have a significant effect on the outturn for the year.	<i>Medium</i>	Formal annual reviews of the valuation/impairment of assets should be carried out annually.	Accepted	30 November 2009
4	IFRS Full shadow IFRS accounts are required to be submitted for audit by 30 November 2009. We note that NAS were not able to submit a 2007-08 opening balance sheet by the agreed deadline	<i>Medium</i>	NAS should review arrangements for ensuring compliance with the IFRS reporting requirements set by the Scottish Government.	Accepted	30 November 2009

No	Finding	Risk	Recommendation	Management Response	Implementation date
5	<p>Statement on System of Internal Control (SIC) There is a risk that the standard SIC is included in the financial statements without due consideration being given to each of the statements made.</p>	<i>Medium</i>	We recommend that the Accountable Officer develops an agreed approach for receiving the appropriate annual assurances required for the preparation of the SIC within the annual accounts.	The Accountable Officer currently receives Letters of Assurance from the Head of Accommodation Services, Head of Records Services Division and Finance manager and gives due consideration to any points of concern which may be raised.	31 March 2010
6	<p>Audit Committee The Scottish Government has published a good practice guide for audit committees operating within the central government sector.</p>	<i>Medium</i>	<p>The Audit Committee should consider further development of scrutiny arrangements to ensure full compliance with good practice guidelines in the following key areas:</p> <ul style="list-style-type: none"> • consider the extent to which audit committee members also sitting on the Management Board limits the independence of the committee • develop formal arrangements to assess the performance of internal and external audit • implement arrangements for a private meeting with the auditors at least once each year • develop arrangements to scrutinise the effectiveness of NAS's risk management arrangements. 	The scale of our operations and consequent size of our Management Board and Audit Committee inevitably mean there will be a high degree of joint membership. However, we have appointed one independent member of the Audit Committee and aim to appoint another with accountancy skills shortly. The Management Board scrutinised risk management in detail at the request of the non executives, though we agree the need for the Audit Committee to do this formally. We will discuss a formal assessment of audit and private meetings with the auditors, with the Chair of the Audit Committee.	31 January 2010

No	Finding	Risk	Recommendation	Management Response	Implementation date
7	VAT There is a risk that VAT controls are not being operated correctly or to best advantage.	<i>Low</i>	We recommend that NAS request a review from a resource within Scottish Government.	Accepted.	
8	Best Value NAS recognises that its arrangements for the systematic achievement of economy, efficiency, effectiveness and Best Value need further development, but has not yet finalised a clear strategy setting out how it will address identified areas of under-performance.	High	There is now a need for NAS to finalise its draft assessment of performance against Best Value good practice guidelines and ensure Best Value principles are embedded across all aspects of service planning and delivery.	Accepted.	31 March 2010
9	Efficient Government NAS's arrangements for identifying and reporting efficiency savings is weak.	<i>Medium</i>	NAS needs to ensure its plans for efficiency savings are specified in detail, are realistic and achievable. All staff should be informed and involved in the process. Monitoring progress against predicted savings should be reported formally to the Management Board each month.	NAS concluded that savings could best be achieved by reducing staff numbers. We did so by meeting customer demand with significantly increased online access due to our digitisation programme. This reduced the need for manual moving of records for customers. We kept a tight control over staff numbers in all areas of the office. Efficiency savings were reported to SG timeously each quarter and proved to be both	31 December 2009

No	Finding	Risk	Recommendation	Management Response	Implementation date
				realistic and achievable. For 2009-10 we continue to maintain downward pressure on staff numbers and have effectively operated a recruitment freeze to ensure that our efficiency targets can be achieved.	
10	Operational Performance Indicators NAS's KPI's tend to be input focussed.	<i>Medium</i>	<p>NAS should review its current performance reporting arrangements to ensure KPI's more accurately reflect corporate priorities set out in the corporate plan.</p> <p>There is also scope for further development of outcome, output and impact performance measures, including customer satisfaction.</p> <p>NAS should consider preparing and publishing an Annual Report to demonstrate more transparently how it has performed against key corporate objectives over the year.</p>	Accepted. The Management Board has already discussed how to improve performance indicators. Research in other archives in the English speaking world has so far found none which truly measure impact.	31 March 2010