

Historic Scotland

Report on the 2006/07 Audit



November 2007



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Executive summary

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by Historic Scotland. We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial position

Historic Scotland's outturn for 2006/07 was net expenditure of £43.099 million (2005/06: £39.956 million) and this was within the cash and resource budget limits set by the Scottish Executive, who provided cash funding of £41.6 million and resource cover of £45.2 million. Historic Scotland's net asset position increased by £1.679 million to £24.997 million in 2006/07.

Financial statements

We concluded that the financial statements of Historic Scotland give a true and fair view of the state of affairs of Historic Scotland as at 31 March 2007.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Performance

Historic Scotland published its corporate plan for the period 2005 – 2008. This included a summary of ten key performance targets against which the effectiveness of the corporate plan could be evaluated over time. In 2006/07 Historic Scotland met or exceeded nine of the Key Performance Targets agreed for 2006/07 (2005/06: nine targets of the ten were achieved). The targets included undertaking the assessment of monuments for scheduling in a total of 31 parishes in Strathdon (Aberdeenshire) and around Inverness and an 88 per cent performance target from the mystery visits programme.

Efficient government

Historic Scotland has not been set targets for efficient government savings but has for the last five years committed to the achievement of an annual key performance target of reducing non-cash expenditure by a certain percentage. The Procurement Unit has the overall responsibility for the key performance target and this year the target was to achieve one per cent efficiency gains on all non grant expenditure. Historic



Scotland reported achievement of 1.07 per cent, representing a saving of £0.58 million, on non grant expenditure.

Governance

The establishment and operation of an efficient and effective internal audit function forms a key element of effective governance and stewardship. Historic Scotland's internal audit service is provided by the Scottish Executive's Audit Services. We reviewed internal audit and concluded that they continue to comply with Government Internal Audit Standards and we were able to place reliance on their work.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them and to mitigate the risks of material misstatement of the accounts, error or fraud.

Historic Scotland continued to strengthen its governance arrangements in 2007 by expanding its Audit Committee membership.

Looking forward

In January 2007, Historic Scotland began live running of the PECOS e-Procurement system. The system has not yet been rolled out across the Agency, but it went live in a regional office on 12 June 2007. This new system will improve efficiency and strengthen controls in areas of purchase ordering and invoice payment throughout the Agency. We will continue to monitor the roll out of this system.

The key performance income target set for 2007/08 represents a six percent increase on the 2006/07 outturn. This will be challenging as the visitor numbers at paid attractions has remained fairly static over recent years. We will monitor achievement of this target in 2007/08.

As part of the 2007/08 audit we will be reviewing the progress that Historic Scotland has made in strengthening its arrangements for securing Best Value since our baseline review work in 2005/06.

**Audit Scotland
November 2007**



Introduction

1. This report summarises the findings from our 2006/07 audit of Historic Scotland. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 19 February 2007. The plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. In the Audit Risk and Analysis Plan, we identified three main risk areas. These were performance; governance and internal control; and information management. Within these risk areas there are a range of more specific risks which informed our audit procedures. We have provided further comment on progress on selected risks at paragraphs 18-19, 20, 24, 26-28, and 29.
3. Appendix A of this report sets out the key risk highlighted in this report and the action planned by management to address it.
4. This is the first year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of Historic Scotland during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial statements

5. In this section we summarise key outcomes from our audit of Historic Scotland's financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our responsibilities

6. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of Historic Scotland and its net operating cost for the period in question
 - they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements,
 - the regularity of the expenditure and receipts.
7. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Chief Executive, as Accountable Officer, to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of Historic Scotland.

Overall conclusion

8. We have given an unqualified opinion on the financial statements of Historic Scotland for 2006/07.

Financial position

2006/07 Outturn

9. Historic Scotland operated within the cash and resource budget limits set by the Scottish Executive, who provided cash funding of £41.6 million and resource cover of £45.2 million. There was a final net underspend of £1.1 million on the resource element of the budget. This underspend relates solely to the impairment budget which was not used because no major developments were completed during the year.
10. Historic Scotland's outturn for 2006/07 was net expenditure of £43.099 million (2005/06: £39.956 million) and its net asset position increased by £1.679 million to £24.997 million in 2006/07.



2007/08 Budget

11. Scottish ministers have set an initial resource budget for Historic Scotland of £47.7 million (together with an uplift of £0.3 million for a baseline transfer for IT costs) for 2007/08. This comprises:
 - an operating budget of £70.7 million
 - a capital budget of £1 million, less
 - a retained income and capital receipts budget of £23.7 million.
12. Historic Scotland's internal budget showed an over commitment of £0.5 million and this was to accommodate in year slippage because of the long lead times on conservation and project spend. The budget is monitored throughout the year and as in previous years no overspend is anticipated at the year end.

Issues arising from the audit

13. As required by auditing standard ISA260, we reported to the audit committee the main issues arising from our audit of the financial statements. There was only one issue we highlighted reflecting the good quality of the accounts and papers presented for audit, relating to unadjusted errors which would have a net effect of reducing by £118,136 the net expenditure for the year shown in the income and expenditure account. As these errors were immaterial to the accounts as a whole, officers in finance did not adjust the accounts for these errors and we agreed with this.

Statement on internal control

14. The Statement on Internal Control provided by Historic Scotland's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and it set out Historic Scotland's approach to this. No significant control weaknesses were highlighted however Historic Scotland disclosed that they are continuing to develop the risk management process and embed it in the organisation.

Regularity assertion

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No issues were identified for disclosure.



Performance

16. 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 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.
17. Accountable officers also have a duty to ensure the resources of their organisation 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.

Performance

18. Historic Scotland published its corporate plan for the period 2005 – 2008. This included a summary of ten key performance targets against which the effectiveness of the corporate plan could be evaluated over time. These targets included undertaking the assessment of monuments for scheduling in a total of 31 parishes in Strathdon (Aberdeenshire) and around Inverness and an 88 per cent performance target from the mystery visits programme. The mystery visits programme is undertaken by an independent company who employ and train "mystery shoppers" to carry out visits to a selected number of sites and each site is judged against specified indicators. The feedback from these visits helps Historic Scotland to improve the presentation of its sites.
19. In 2006/07 Historic Scotland met or exceeded nine of the Key Performance Targets agreed for 2006/07 (2005/06: nine of the ten targets were achieved) and included meeting their assessment of monuments scheduling target and achieving an 89.6 per cent performance outturn from their mystery visits programme. Historic Scotland dealt with more casework than before on listed building and conservation area consents and over 99 per cent of cases (target: 97 per cent) were resolved within 28 days. This was due to a combination of effective management and pre planning discussions with planning authorities and applicants. Internal Audit undertakes an annual validation review of Historic Scotland's Key Performance Targets: for 2006/07, they provided substantial assurance in respect of this area of Historic Scotland's operations.

Efficient government

20. Historic Scotland has not been set targets for efficient government savings but have for the last five years committed to the achievement of an annual key performance target of reducing non-cash expenditure by a certain percentage. The Procurement Unit has the overall responsibility for the key performance target and this year the target was to achieve one per cent efficiency gains on all non-grant expenditure. Historic Scotland reported achievement of 1.07 per cent, representing a saving of £0.58 million on non grant expenditure.



Governance

21. This section sets out our main findings arising from our review of Historic Scotland's governance arrangements. This year we reviewed:
- key systems of internal control
 - internal audit
 - aspects of information and communications technology (ICT).
22. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9 to 10).

Systems of internal control

23. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2006/07 the Head of Internal Audit provided his opinion that, based on the internal audit work undertaken during the year, there was substantial assurance on the adequacy and effectiveness of the systems of internal control.
24. As part of our audit we reviewed the high level controls in a number of Historic Scotland's systems that impact on the financial statements. Our overall conclusion was that, with the specific exception noted below, key controls were operating effectively. At the planning stage we identified that there were delays in completing reconciliations between Human Resource records and payroll in 2005/06 which could impact on the timely completion of the 2006/07 reconciliations. At our final audit visit, there were still some outstanding reconciliations including the year end reconciliation. Historic Scotland has confirmed that they aim to complete all outstanding reconciliations by November 2007. We agreed with Historic Scotland this was not significant enough for specific mention in the Statement on Internal Control.

Refer to Action Plan No. 1

Internal audit

25. The establishment and operation of an effective Internal Audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of Internal Audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on the Internal Audit function provided by the Scottish



Executive's Audit Services. We concluded that the Internal Audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on a number of Internal Audit reviews including stock ordering, control and distribution in the retail unit and risk management and governance.

Information and communication technology

Computer service review

26. As part of our risk based assessment, we identified Information and Communication Technology (ICT) as a priority area for review in 2006/07. Management were asked to complete a Computer Service Review Client Questionnaire (CSR-CQ) and we reported our detailed findings from this exercise separately in our report issued in June 2007.
27. The seven key areas covered by the CSR-CQ were: ICT strategy, organisational structure, installation management, service delivery, asset protection and security, business continuity/contingency and data networking.
28. We identified some examples of good practice, in particular installing good access and environmental controls in the key computer room. We also identified some areas where improvements can be made, in particular establishing clear roles, responsibilities and monitoring of information security between the Scottish Executive and Historic Scotland. Historic Scotland is implementing agreed actions and we will follow up in 2007/08.



Looking Forward

29. Historic Scotland faces a number of challenges in 2007/08, which include:

- **Key Performance Targets** – the income target set for 2007/08 represents a six percent increase on the 2006/07 outturn. This will be challenging as the visitor numbers at paid attractions has remained fairly static over recent years. We will monitor achievement of this target in 2007/08.
- **Electronic Record Document Management System** – Historic Scotland plans, subject to a business case, to introduce an electronic records and document management system in collaboration with the Scottish Executive. We will review progress in this area in 2007/08.
- **Procurement** – the Review of Public Procurement in Scotland report by John McClelland, issued in March 2006, contained a significant number of findings and recommendations in respect of procurement in the public sector. In January 2007, Historic Scotland began live running of the PECOS e-Procurement system. This new system will improve efficiency and strengthen controls in areas of purchase ordering and invoice payment throughout the Agency. The system has not yet been rolled out across the Agency, but it went live in a regional office on 12 June 2007. We will continue to monitor the roll out of this system.
- **Best Value** – as part of the 2007/08 audit we will be reviewing the progress that Historic Scotland has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.



Appendix A: Action Plan

Key Issues and Planned Management Action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	<p>Human Resources (HR) and Payroll Reconciliations</p> <p>Historic Scotland should prepare monthly reconciliations between HR records and payroll on a timely basis throughout the financial year. At our final audit visit there were still some outstanding reconciliations including the year end reconciliation.</p> <p>There is risk that overpayments could occur if reconciliations are not carried out on a regular basis.</p>	<p>Payroll Manager has completed the current tax year and has ensured that the reconciliations will be completed on a monthly basis from now on.</p> <p>They will work on completing those outstanding from previous tax year as a matter of urgency.</p>	<p>Head of HR Data Systems, Pay and Reward</p> <p>Payroll Manager</p>	End of March 2008.