

Historic Scotland

Report on the 2008/09 audit

September 2009

The logo for Audit Scotland, featuring a stylized 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

Historic Scotland

Report on the 2008/09 Audit

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Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by Historic Scotland. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of Historic Scotland for 2008/09. 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.

Financial position and use of resources

During 2008/09 Historic Scotland recorded an operating deficit of £46.911 million (2007/08 £49.791 million). The decrease of £2.88 million was due mainly to a reduction in expenditure on grants compared with 2007/08 which included a large grant for Dumfries House. This reduction in expenditure was partly offset by a decline in commercial income due to the difficult economic climate in 2008/09 which adversely affected tourism and in comparison with a particularly successful 2007/08.

Historic Scotland maintained its balance sheet at 31 March 2009 with net assets of £25.863 million compared with net assets of £25.621 million at 31 March 2008.

In 2008/09 Historic Scotland overspent by £0.183 million the resource budget limits set by the Scottish Government due mainly to a reduction in income of over £1 million compared with 2007/08 and heavy demand for grants partially offset by savings in expenditure. Historic Scotland received Scottish Government agreement to the overspend.

Scottish Ministers have agreed a budget for Historic Scotland of £49.335 million for 2009/10. The internal budget has been set at £73.802 million reflecting £24.467 million of income. Historic Scotland set a balanced budget for 2009/10 by making savings within Group budgets whilst identifying a number of pressures in particular in the grants budget. Pressure on budgets will continue in 2010/11 and 2011/12.

Historic Scotland is expected to achieve 2% of efficiency savings per year. These targets are cumulative and equate to £1 million per annum. Actual savings achieved to 31 March 2009 were £1.418 million – 2.52% of non-grant expenditure. Delivering efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control



arrangements for Historic Scotland operated satisfactorily during the year, as reflected in the Statement on Internal Control.

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.

Performance

Historic Scotland had nine key performance targets in 2008/09 covering customer service, processing of applications, policy outputs, progress on the Stirling Castle project, earned income and efficiency savings. Historic Scotland met eight out of nine key targets for 2008/09. Historic Scotland failed by £2.099 million to meet the target to raise £25.879 million of earned income. This reflected the difficult economic climate which adversely affected tourism.

The corporate plan for 2008/11 published September 2008 focuses on activities designed to meet the aims from the National Performance Framework. Each business group has a number of objectives and activities designed to achieve the objectives within the available resources. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints.

Historic Scotland completed a baseline review of its best value arrangements in 2005/06. Since then Historic Scotland has completed annual best value self-assessments. The themes are: commitment and leadership; responsiveness and consultation (stakeholders); sound governance; sound management of resources and contractual arrangements; use of review and options appraisal; sustainable development; equal opportunities arrangements; joint working; and accountability. The 2009 exercise rated seven of the nine themes as "well-developed" and two (sound governance and equal opportunities arrangements) as "under development".

Looking forward

The final part of our report notes some key risk areas and issues for Historic Scotland going forward. Historic Scotland faces significant financial pressure over the next three years to achieve the required efficiency savings. We will continue to monitor financial planning arrangements and Historic Scotland's financial position. Preparation will be required for the new Financial Reporting Standard on Heritage Assets. We also highlight a number of national issues which affect all public sector bodies including Historic Scotland: effective budget monitoring and reporting arrangements will be crucial to Historic Scotland achieving its financial targets within tighter funding settlements, reporting under the National Performance Framework; the impact of international financial reporting standards; and the review of data handling arrangement in public bodies across Scotland.



The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland
September 2009



Introduction

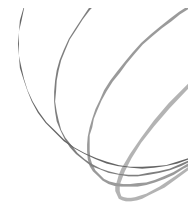
1. This report summarises the findings from our 2008/09 audit of Historic Scotland. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 18 February 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued two reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of Historic Scotland's arrangements.

Exhibit 1: Framework for a best value audit of a public body





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for Historic Scotland, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by staff and Board 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.



Financial Statements

7. In this section we summarise key outcomes from our audit of Historic Scotland's financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. 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 expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the Directors' Report within the financial statements
 - the regularity of the expenditure and receipts.
9. 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

10. We have given an unqualified opinion on the financial statements of Historic Scotland for 2008/09.
11. As agreed the unaudited accounts were provided to us on 11 May 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 22 June 2009 as timetabled.

Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 22 June 2009 the main issues arising from our audit of the financial statements. The key issues were as follows:



13. The accounts include a provision of £400,000 for a contractual dispute. The original provision of £120,000 created in 2003/04 was increased to its present value in 2006/07. The provision was reviewed again in 2007/08 and maintained at £400,000. Following discussions for 2008/09 there may be scope to increase this provision to £500,000. Historic Scotland will review the adequacy of the provision and update for 2009/10 if required.
14. Creditor balances shown in the accounts include the 10% retention element of grants. We reviewed a number of retentions and were unable to agree the balances to the details held in the grant files. Whilst the amounts involved are not material we are concerned that there are inaccurate and/or unnecessary retentions within the accounts. Historic Scotland has undertaken to review the process by which retentions are calculated and ensure that a transparent method of recording is in place for 2009/10.

Regularity

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 significant issues were identified for disclosure.

International financial reporting standards (IFRS)

16. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
17. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - **28 November 2008** – opening 2008 IFRS-based balance sheets were to be presented to auditors for dry-run audit.
 - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.



18. The opening balance sheet and supporting documentation were submitted by Historic Scotland for audit for review by the deadline date of 28 November 2008. The restated balance sheet and supporting working papers were comprehensive.

19. We made some recommendations for the delivery of the next stage of IFRS reporting – the production of the shadow accounts for 2008/09, and will consider progress on these when we review the shadow accounts later in 2009. These included:
 - Historic Scotland had not obtained the necessary information to complete the componentisation review of buildings but is planning to obtain professional valuations on this basis from 31 March 2009 as part of the normal five-year cycle for valuations. Historic Scotland will ensure that full consideration is given to the impact of componentisation and obtain assurance that any components within the properties are not significant.

 - Historic Scotland did not include all relevant items in the calculation of employee benefits. Historic Scotland is to ensure that this position is reviewed and any material items are included in the opening balance sheet.

 - A dilapidation provision could have been established at 1 April 2008 for reinstatement costs associated with the termination during 2008/09 of a lease. Historic Scotland is to review buildings leases to establish whether dilapidations provisions are required.

 - In accordance with initial guidance Historic Scotland should have written off some intangible assets. Subsequent developments indicated that any de-recognition of intangible assets should be reversed for the shadow accounts. Historic Scotland agreed to review all intangible assets in line with the latest guidance.



Use of Resources

20. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of Historic Scotland's:

- financial position
- financial management

Financial Position

Outturn 2008/09

21. Historic Scotland is required to work within its resource budget set by the Scottish Government. In 2008/09 Historic Scotland overspent the resource budget limits set by the Scottish Government – see exhibit 2 below. The overspend of £0.183 million on the resource budget resulted mainly from the decline in income of over £1 million compared with 2007/08 and heavy demand for grants partially offset by savings in expenditure. Historic Scotland received Scottish Government agreement to the overspend.

Exhibit 2 – Performance against resource budget 2008/09 (£ million)

Limits	Budget	Actual Outturn	Difference
Non Cash Expenditure	3.607	1.841	(1.766)
Scottish Government funding	44.313	46.262	1.949
Total	47.920	48.103	0.183

22. During 2008/09 Historic Scotland recorded an operating deficit of £46.911 million (2007/08 £49.791 million). The decrease of £2.88 million was due mainly a reduction in expenditure on grants compared with 2007/08 which included a large grant for Dumfries House. This reduction in expenditure was partly offset by a decline in commercial income due to the difficult economic climate in 2008/09 which adversely affected tourism and in comparison with a particularly successful 2007/08.
23. Historic Scotland maintained its balance sheet at 31 March 2009 with net assets of £25.863 million compared with net assets of £25.621 million at 31 March 2008.



Financial sustainability and the 2009/10 budget

24. Scottish Ministers have agreed a budget for Historic Scotland of £49.335 million for 2009/10. The internal budget has been set at £73.802 million reflecting £24.467 million of income. This comprises operating expenditure of £72.802 million and capital expenditure of £1 million.
25. This is to be funded as follows:

Exhibit 3 – 2009/10 Proposed Budget (£ million)

Limits	Budget
Scottish Government financing	49.335
Retained Income	24.467
Total	73.802

26. There will be no increase in funding for either 2009/10 or 2010/11 apart from one-off capital funding for the Stirling Palace Royal Apartments Project.
27. Historic Scotland is expected to achieve 2% of efficiency savings per year. Historic Scotland set a balanced budget for 2009/10 by making savings within Group budgets whilst identifying a number of pressures in particular in the grants budget. The economic downturn in 2009/10 has an impact on visitor numbers to Historic Scotland's properties and earned income. Pressure on budgets will continue in 2010/11 and 2011/12. There are constraints on Historic Scotland's ability to reduce costs or achieve savings due to grants commitments which span a number of years and the fixed nature of many other costs. Delivering efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge for Historic Scotland.

National Studies

28. Audit Scotland published two national studies relevant to Historic Scotland's use of resources. These were use of consultancy services and improving energy efficiency.

Use of consultancy services

29. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were as follows:
- The public sector is strengthening the way it buys goods and services.



- Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.
- In most cases, central government buys consultancy services well but some improvements can be made.
- Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.
- Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

30. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff
- gather and share consistent information on the consultancy skills bought and why consultants are used
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
- evaluate the work of consultants more systematically and share findings from these reviews
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.



31. Two Historic Scotland projects were included as case studies. Historic Scotland's aim is to meet the key recommendations of the report when procuring and managing consultancy services, and to pursue any areas where improvement is identified.

Improving energy efficiency

32. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. The key findings were as follows:

- Funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented.
- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

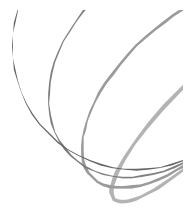
33. Historic Scotland completed Audit Scotland's survey.

34. The Agency is preparing a climate change action plan aimed at reducing the emissions from its own activities with a planned review of energy management at Properties in Care and offices and workshops, and an ongoing review of staff travel as part of wider efficiency measures.

Improving public sector purchasing

35. Audit Scotland assessed the impact of the Public Procurement Reform Programme (the Programme) which aimed at improving purchasing practice and making savings of about three per cent a year. This included examination of the savings from the Programme and the wider benefits of the Programme. The report noted the following:

- The Programme which is ambitious and challenging has made significant progress but some changes are taking longer than planned to implement and performance measures are largely incomplete



- Around £327 million has been saved in the first two years of the Programme which is in line with the Programme target however some savings have been delayed and because of limited data it is unclear how progress towards the third year target of £400 million will be monitored
 - Overall the impact of the Programme appears positive however the scale of improvement is difficult to quantify and there are variable levels of engagement by public bodies
 - Key risks to the Programme include maintaining momentum, programme management, availability of information and shortages of skilled staff. These need to be addressed to help accelerate the Programme.
36. Historic Scotland collaborates where possible with the Scottish Procurement Directorate (SPD) on appropriate procurement projects to avoid duplication of purchasing effort and routes requirements for generic goods and services through the Scottish Government framework agreements and collaborative contracts where these are advantageous. Historic Scotland also collaborates directly with others in the public sector (for example, English Heritage) over the purchase of goods and services which are specific to its needs.



Governance and Accountability

37. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of Historic Scotland's arrangements.
38. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

39. This year we reviewed:
- key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
40. Our overall conclusion is that arrangements within Historic Scotland are sound and have operated throughout 2008/09.

Systems of internal control

41. 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 their annual report for 2008/09 Scottish Government Audit Division, the internal auditors, provided substantial assurance based on the internal audit work undertaken during the year and the action taken in response to their findings, in respect of Historic Scotland's risk management, control and governance arrangements.
42. 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 key controls were operating effectively and that Historic Scotland has adequate systems of internal control in place.



Statement on Internal Control

43. 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 set out Historic Scotland's approach to this. The Statement on Internal Control highlighted progress in two areas:

- **Business Continuity Programme** – business continuity software has been implemented, an IT system recovery plan and individual systems response plans have been developed and secure operating procedures for key systems have been documented.
- **Information Risk** - as part of the Scottish Government data handling review Historic Scotland identified business critical systems and assessed the four highest priority systems and prepared risk assessment and risk treatment plans. Risk management responsibilities have been allocated to individuals and information asset owners have been appointed to IT systems. A draft information risk policy has been prepared.

Internal Audit

44. 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 2008/09 audit we assessed whether we could place reliance on Historic Scotland's internal audit function. We concluded that Scottish Government Audit Division operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

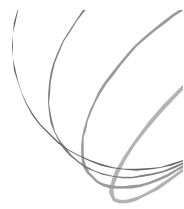
Prevention and detection of fraud and irregularities

45. Historic Scotland has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

46. There were no reported frauds in 2008/09.

National Studies

47. Audit Scotland published one national study relevant to Historic Scotland use of resources. This was a review of major capital projects.

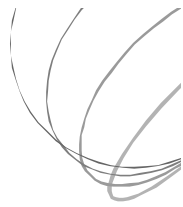


Major capital projects

48. This report was the first systematic review of major capital projects in Scotland. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:

- In general, the achievement of cost and time targets improved significantly as projects progressed.
- Early cost and time estimates at project approval stage were too optimistic for many major projects.
- Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer.
- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment.
- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage.
- Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

49. An appendix to the report identified the Stirling Castle Palace Project as one of 104 current Scottish Government projects in progress. The project has an estimated cost of £12 million. The report was discussed by the Historic Scotland major projects group. Due to the size of the Stirling Palace Royal Apartments project it is important that Historic Scotland consider the findings of this report and take appropriate action.



Performance

50. 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. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
51. In this section we comment on:
- Historic Scotland's corporate plan
 - performance against targets
 - Historic Scotland's efficiency programme

Vision and strategic direction

52. The Minister for Europe, External Affairs and Culture set the broad direction for Historic Scotland and its governance arrangements. In the light of the National Performance Framework the Minister set the following aims for Historic Scotland:
- To care for, protect and enhance the historic environment
 - To secure greater economic benefits from the historic environment
 - To help people value, understand and enjoy the historic environment.
53. Historic Scotland published its corporate plan for 2008/11 in September 2008. The plan describes how Historic Scotland activities contribute to its aims. Activities include systematic monitoring and carefully prioritised investment in conservation at properties in care, major investment in the Palace at Stirling Castle to enhance it for future generations, investment in new facilities to enhance the visitor experience, improving the interpretation offered at properties based on a sound understanding of the sites and delivered to a wide range of audiences through a variety of accessible media, offering a wider selection of educational activities, and working with local communities to build closer links between them and their local monuments and the historic environment in general. Each business group has a number of objectives and activities designed to achieve the objectives within the available resources.



54. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints. This is an area we will keep under review.

Performance overview

55. Key Performance Targets are set by the Minister each spring for the forthcoming financial year. Historic Scotland had nine key performance targets in 2008/09 covering customer service, processing of applications, policy outputs, progress on the Stirling Castle project, earned income and efficiency savings. The Scottish Government's Internal Auditors reported that Historic Scotland met or exceeded eight out of the nine targets (2007/08: all of the ten targets were achieved). Historic Scotland failed by £2.099 million to meet the target to raise £25.879 million of earned income. This reflected the difficult economic climate which adversely affected tourism.
56. Best Value duties apply across the public sector. In central government, all Accountable Officers have a duty to achieve best value. Audit Scotland has adopted a generic framework to the audit of best value across all public bodies based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector.
57. Historic Scotland completed a baseline review of best value in 2005/06. Since then, there have been improvements in the governance of the agency with a number of the changes suggested at the time of the initial review having subsequently been implemented. Historic Scotland has continued to monitor progress against the best value themes and complete annual best value self-assessments. The themes are: commitment and leadership; responsiveness and consultation (stakeholders); sound governance; sound management of resources and contractual arrangements; use of review and options appraisal; sustainable development; equal opportunities arrangements; joint working; and accountability. The 2009 exercise rated seven of the nine themes as "well-developed" and two (sound governance and equal opportunities arrangements) as "under development".

Risk management

58. An agency risk register which details the most significant risks for the agency as a whole has been compiled and is reviewed regularly and the results are presented quarterly to the Historic Scotland Board. In addition each business group has compiled a register of risks specific to their area. Risk management training has been implemented. The challenge for the Board will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.
59. The main risks identified by Historic Scotland and the outcomes are:



- **Overspend against budget.** As noted in paragraph 21 Historic Scotland failed to keep within the 2008/09 resource budget allocated by the Scottish Government due to a shortfall in earned income.
- **Budgetary constraints** adversely affecting delivery of planned activities. In 2008/09 there was continued pressure on the grants programme due to the numbers of eligible buildings and cost of repair. Historic sites continued to be maintained and effectively presented to visitors. Historic Scotland has a number of systems improvements and initiatives planned for 2009/10 and beyond.
- **Failure to meet key performance targets.** As noted in paragraph 55 Historic Scotland's earned income fell short of its 2008/09 target because the economic climate affected visitor numbers and this risk will continue into 2009/10.

60. These risk areas are complex and comprise multiple issues which will require careful management to resolve.

Efficiency

61. As part of the Spending Review 2007 Historic Scotland was set targets for achieving cash-releasing savings of 2% of non-grant expenditure for each of the years 2008/09 to 2010/11. These targets are cumulative and equate to £1 million per annum. These will be challenging targets for Historic Scotland to achieve whilst absorbing pay and costs inflation. Actual savings achieved to 31 March 2009 were £1.418 million – 2.52% of non-grant expenditure. Historic Scotland is expecting to achieve the 2009/10 target but the £3 million target for 2010/11 will be very difficult to attain. We will continue to monitor the financial position and the actions taken by Historic Scotland.



Looking Forward

62. Historic Scotland faces a number of challenges in 2009/10, which include:

- **Financial management and affordability** - The Scottish Parliament's Finance Committee recently published its report on the Scottish Government budget. The report noted that Scottish Government spending is set to decline in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to Historic Scotland achieving its financial targets within tighter funding settlements. We will consider Historic Scotland's financial management arrangements as part of our 2009/10 audit.
- **Efficiencies and future funding** - Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS) particularly on leases and infrastructure accounting. Historic Scotland has to achieve 2% efficiency savings amounting to £1 million per year from 2008/09 to 2010/11. The challenge for Historic Scotland is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how Historic Scotland is addressing this developing area as part of the 2009/10 audit.
- **IFRS** - The timetable for IFRS implementation requires central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts will require to be produced for 2008/09 by 30 September 2009 for audit review. These processes will require significant resource to complete and it will be important that these issues are addressed early in 2009/10.
- **Data Handling** - The Scottish Government carried out a review of data handling arrangements in Scotland during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation



of procedures. A Scottish Government report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and improved security of sensitive information. As noted at paragraph 43 Historic Scotland has made progress in dealing with information risk. Further work includes finalising the information risk policy, further systems review and staff training. We will monitor Historic Scotland's progress against recommendations due to be implemented during 2009/10.

- **Heritage Assets** - The Accounting Standards Board Financial Reporting Standard 30 on heritage assets has significant new disclosure requirements for reporting the content and value of heritage assets. Although the new standard is not mandatory until 2010/11 Historic Scotland will need to prepare for a significant impact on the accounts.