

Historic Scotland

Report on the 2005-06 Audit

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds



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Executive Summary

Introduction

In 2005-06 we audited the financial statements of Historic Scotland and looked at 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 2005-06.

At the planning stage we identified nine main audit risks which informed our audit procedures. From our audit work we can conclude that eight of these risks are being satisfactorily managed by Historic Scotland. Further action is required on one risk and others require Historic Scotland to continue with developments already proposed.

Governance

Historic Scotland's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

Performance Management

During 2005-06 we completed a baseline Best Value analysis of Historic Scotland's management arrangements for achieving Best Value. We found that Historic Scotland's procedures were under development, and that satisfactory progress towards achieving Best Value was being made.

We carried out an overview of Historic Scotland's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government Initiative. Historic Scotland has committed itself to delivering £0.350m in time releasing savings for the two year period to 2007-08 and £1.832m cash releasing savings over the 3 year period from 2005-06 to 2007-08. We concluded that Historic Scotland were developing baseline measures and are addressing the requirements of the Scottish Executive programme.

I would like to record my thanks to management and staff for their co-operation and assistance.

Peter Tait CPFA, Assistant Director



Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of Historic Scotland. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which was submitted to the Audit Committee on 23 February 2006. This plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to Historic Scotland. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
3. This is the final year of a five year audit appointment. We note that Audit Scotland has been appointed as external auditors of Historic Scotland for the period 2006–07 to 2010–11. In compliance with International Standards on Auditing and general good practice we will rotate some staff who have worked on this audit for a number of years.
4. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and Directors of the Historic Scotland during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Risks Identified in the Audit Risk Analysis and Plan

5. A key feature of our audit approach is the need to form a comprehensive understanding of the client's business in order to appreciate the risks arising from that business and affecting the achievement of its objectives. Nine risks were identified at the planning stage and listed in the ARAP:
 - Key performance indicators
 - Efficient Government & Best Value
 - Risk Registers
 - Purchase ledger & GPC systems
 - BLEEP Point of Sale system
 - Continued use of fully depreciated assets
 - Reconciliation of Payroll to Personnel records
 - E-Procurement project
 - Co-ordination of Europe wide project



6. The outcome of the audit work on each of the risks, is summarised at Appendix A. We can conclude that eight risks are being satisfactorily managed by Historic Scotland and further action is planned for the remaining risk in respect of the Europe-wide 'Culture 2000' project.

Prior Period Follow Up

7. Two issues were identified in the Action Plan attached to our Report on the 2004-05 Audit. We are satisfied that our recommendations have been fully implemented in 2005-06.

Management Action

8. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.



Financial Statements

Our Responsibilities

9. 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, of the state of affairs of Historic Scotland as at 31 March 2006 and the net cost of operations, 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 Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

10. We also review the Statement on Internal Control by:

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

Overall Conclusion

11. We have given an unqualified opinion on the financial statements of Historic Scotland for 2005-06.

We are able to conclude that the financial statements of Historic Scotland give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

12. Following discussion with the Director of Finance, a date of 8 May 2006 was agreed for the provision of the accounts for audit. Accordingly audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the end of July. Accounts were duly submitted on the agreed date and the completion timetable achieved.



Financial Performance

13. Historic Scotland's income and expenditure account for the year records gross expenditure of £61.784m and income of £22.617m resulting in a deficit for the year on operating activities of £39.167m. This deficit was met by funding from the Scottish Executive.

Statement on Internal Control

14. A draft Statement on Internal Control was presented to the Audit Committee on 22 June 2006 and signed by the Chief Executive on 27 June 2006. This set out the arrangements that operated for risk identification and review, management of identified risks and assurance of effectiveness.
15. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are consistent with the information emerging from our normal audit work.

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

16. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 22 June 2006.
17. The accounts have been prepared in accordance with the Government Financial Reporting Manual (FReM). There are no other significant judgements included in the accounts on which we wish to comment.
18. As part of the audit process we identified an accounting adjustment that was required after a planned cyclical valuation of assets. This involved a £1.027m partial reversal of an impairment, which was previously disclosed in 2001-02.
19. In addition there were a small number of immaterial unadjusted misstatements in the accounts. There are no other significant points reported in the letter.



Governance

Introduction

20. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of Historic Scotland's corporate governance as it relates to:

- fraud prevention and detection arrangements;
- systems of internal control;
- review of internal audit; and
- IT audit

Overall Conclusion

21. During our audit we reviewed the governance systems operating at Historic Scotland. In general, we are content that they are soundly based.

Fraud Prevention and Detection Arrangements

22. Historic Scotland's arrangements for preventing and detecting fraud and corruption were assessed during the audit and found to be satisfactory. No frauds were identified by Historic Scotland in 2005-06.

Systems of Internal Control

23. During our interim audit visit we carried out some assessment of systems and controls in relation to grants, payroll, income and non-payroll expenditure. The findings were reported to management. There are no significant points to highlight in this report.

Review of Internal Audit

24. Historic Scotland recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.



25. Internal audit services are provided by the Scottish Executive Audit Unit (SEAU). Our colleagues responsible for the audit of the Scottish Executive completed a full review of the internal audit function provided by the SEAU, in accordance with International Auditing Standard 610, during 2004-05. This review concluded that the internal audit service operated in accordance with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. Our audit also identified some areas for improvement. During 2005-06, our colleagues assessed the SEAU's progress in implementing the agreed action plan resulting from the work done in 2004-05 and the extent to which reliance could be placed on the work of internal audit for 2005-06. This follow up review confirmed that the SEAU continues to comply with Government Internal Audit Standards and identified that the SEAU had made some progress in implementing recommendations from the 2004-05 review. This satisfactory evaluation of the internal audit service allows us to place reliance on a number of aspects of the SEAU's work during 2005-06.
26. We planned to place formal reliance on the work of internal audit, in terms of International Standard on Auditing 610 on the reviews of income from admissions and retail sales, archaeology programme, conservation centre, conservation bureau, research and education funding, risk management and validation of agency's key performance targets. We reviewed these reports and supporting files where appropriate. None of the observations and related risks precluded planned assurance from being taken for our financial statements audit.
27. On the 22 June 2006 Internal Audit provided the Accountable Officer with an overall opinion of "**substantial** assurance in overall terms in respect of Historic Scotland's systems of control"

IT Audit

28. During 2005-06 we carried out a high level review of information and communications technology projects.
29. The projects included the implementation of the data warehousing and the development e-procurement system (PECOS). The main findings in our draft report were:

Bleep Data Warehouse

- The information produced by management during our overview highlighted a number of areas of good practice, for example a project board and project team were established for the project.
- We also identified a number of areas which management may wish to consider to identify any opportunities to improve current operational practice and they included system backup, management information and the system upgrade.



Electronic –Procurement (PECOS) System

- We made recommendations on improvements that could be made with regard to the scanning of invoices and PECOS and Integra Integration Testing.

Future Projects

- In addition we highlighted good practice points to be addressed for future testing and future corporate projects.

Issues Arising

30. We would like to draw attention to the following issue arising from our review of corporate governance:

Culture 2000 Project

- The consultant employed by Historic Scotland as an Administrator of the project has not provided information on project expenditure as detailed in the terms of the consultant's contract. Procedures still have to be developed to produce data for the interim report to be submitted to the European Community to support the draw down of the next tranche of grant.

Action point 1



Performance Management

Introduction

31. This section covers our assessment of the way in which Historic Scotland secures value for money in the use of its resources. This year we focussed on two main areas:

- Efficient Government; and
- Best Value.

Efficient Government

32. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

33. Historic Scotland has not been set targets for efficient government savings but have for the last four years committed to the achievement of an annual key performance target of reducing non-grant expenditure by a certain percentage. Historic Scotland has committed to total cash releasing savings of £1.832m for the three year period from 2005-06 through purchasing savings. In addition Historic Scotland seek to achieve a total of time releasing savings of £0.350m for the two year period 2006-07 to 2007-08. These savings will be generated from e-procurement and reduction in overtime expenditure.

34. During 2005-06 Audit Scotland completed a management arrangements diagnostic on Efficient Government activities across a number of Central Government organisations including Historic Scotland. It aimed at providing baseline information on arrangements across a range of Efficient Government related topics.

35. Overall we concluded that, at the time of our audit in March, Historic Scotland had in place systems to review monitor and report the achievement of the annual key performance indicator and were developing baseline measures to monitor the savings from the e-procurement system. Historic Scotland is also developing systems in 2006-07 as part of a "Continuous Improvement" initiative to achieve better performance across all of its activities and also to meet the requirements of the Efficient Government Agenda.



36. A detailed position statement of a sample of public sector organisations in Scotland is being produced by Audit Scotland and will be issued shortly.

Best Value

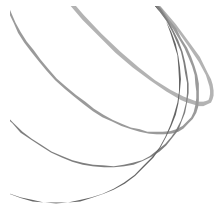
37. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:
- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
 - to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
 - to contribute to the achievement of sustainable development.
38. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.
39. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within Historic Scotland. The overall aim of this analysis was to establish the organisation's arrangements for taking forward the Best Value agenda and demonstrating continuous improvement.
40. Overall, we assessed Historic Scotland's arrangements to secure Best Value as being under development but indicating satisfactory progress. We note that Historic Scotland carried out a self assessment in 2005 and are in the process of developing an action plan.
41. The results of the review across the wider public sector are currently under evaluation and will be published by Audit Scotland during 2006.

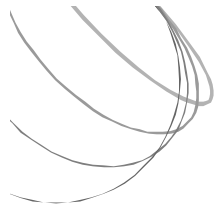
National Studies

42. Reports published by the Auditor General for Scotland which maybe of interest to the Agency are summarised at Appendix C.

Appendix A: Outcome on Risks Identified in the Audit Risk Analysis and Plan

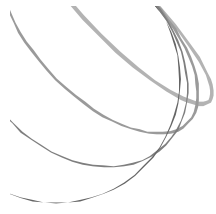
Risk	Management assurances	Planned audit action	Outcomes
<p>1. Key Performance indicators</p> <p>There is a risk that current arrangements do not fully monitor and report the achievement of annual Key Performance Indicators and three year Corporate Plan operational targets and other measures.</p>	<p>(a) Key Performance Indicators are reported quarterly to the Board and to the sponsor Department.</p> <p>Internal Audit will report on the Validation of the Agency's Key Performance Targets by June 2006</p> <p>(b) Corporate Plan targets and measures are being incorporated into Operational Plans for each Business Group. Individual Directors will monitor the achievement of their Operational Plan and report to the Chief Executive.</p> <p>Continuous Improvement initiatives will develop a new Corporate Plan tracking/monitoring/ reporting system.</p> <p>Continuous Improvement developments will be reported to the Board every six months.</p>	<p>(a) Review of Internal Audit report and/or working papers.</p> <p>(b) Track management assurances that procedures are being developed to monitor and report on Corporate Plan targets and measures.</p>	<p>(a) Overall Internal Audit reported "that the arrangements Historic Scotland has in place for collating Key Performance Target data and reporting outturn were generally sound". In addition we have reviewed the quarterly reports prepared by HS for presentation to the Board. On this basis, we are content that Key Performance Indicators are being fully monitored and reported.</p> <p>(b) Procedures are being developed as part of the Continuous Improvement Initiative. We understand that progress was reported to the Board in June 2006.</p>





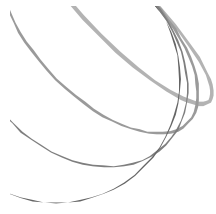
Risk	Management assurances	Planned audit action	Outcomes
<p>2. Efficient Government & Best Value Agenda</p> <p>There is a risk that efficient government and best value requirements are not appropriately managed and fully delivered.</p>	<p>(a) These requirements have been incorporated into the Continuous Improvement activities, operational targets and other measures in the Corporate Plan.</p> <p>(b) A Best Value self-assessment has been undertaken. This has identified some areas in which further work is required; some will be covered in the existing Continuous Improvement programme; others will require specific action.</p> <p>The Corporate Plan commits Historic Scotland to produce three Best Value studies each year for the next three years.</p> <p>(c) Efficient Government cash-releasing savings have been established as Key Performance Indicators and will, therefore, be reported on by Internal Audit.</p>	<p>(a) Track management assurances that procedures are being developed to monitor and report on Corporate Plan targets and measures.</p> <p>(b) Audit Scotland Best Value diagnostic will be completed</p> <p>(c) Audit Scotland Efficient Government diagnostic will be completed</p>	<p>(a) Procedures are being developed as part of the Continuous Improvement Initiative. We understand that progress was reported to the Board in June 2006.</p> <p>(b) We have completed a Best Value diagnostic. We are content that, in general, HS are properly developing arrangements to secure Best Value; they have well developed procedures in some Areas.</p> <p>(c) We have completed an Efficient Government diagnostic. We are content that HS are addressing the requirements of the Scottish Executive programme.</p> <p>See paragraphs 32-41</p>

Risk	Management assurances	Planned audit action	Outcomes
<p>3. Risk Registers</p> <p>There is a risk that the process for compiling Risk Registers and managing those risks identified may not be fully embedded throughout all of Historic Scotland's operations.</p>	<p>(a) Risk Registers will be produced by all Business Groups for their areas of operation. Action Plans will be derived from these.</p> <p>The high-level Agency-wide Risk Register will be revised.</p> <p>A risk management strategy will be developed and appropriate training commenced by year-end.</p> <p>(b) Internal Audit will report on Risk Management & Governance by year-end</p>	<p>(a) Track management assurances.</p> <p>(b) Review of Internal Audit report and/or working papers.</p>	<p>(a) Good progress has been made in embedding the risk management process throughout Historic Scotland. The significant areas of work have been completed. There are only two areas where development work is on-going; the strategy document has yet to be finalised and distributed; some in-house training has been given but additional training by an external provider is being considered.</p> <p>(b) Internal Audit in their final report concluded on the basis of the work undertaken they were "able to provide substantial assurance in overall terms in respect of Historic Scotland's systems of control."</p>

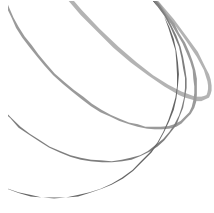


Risk	Management assurances	Planned audit action	Outcomes
<p>4. Purchase Ledger</p> <p>There is a risk that Historic Scotland has not completed all proposed improvements to the Purchase Ledger and Government Procurement Card (GPC) systems.</p>	<p>(a) A review of compliance with procedures has been undertaken and, as a result, further guidance and training has been proposed. The Fraud Response Plan will be updated in light of the Lessons Learned.</p> <p>(b) GPC is being processed by centrally by Finance, so that they can monitor that proper procedures are being operated by other staff. Quarterly reports of the results of this monitoring are reviewed by the Director of Finance and then presented to the Senior Management Team (SMT).</p> <p>(c) Historic Scotland made commitments to take action, in the 2004-5 Statement of Internal Control and in their responses to Internal Audit reports.</p>	<p>(a) Track any progress in 2005-6</p> <p>(b) Track management assurances through review of SMT minutes.</p> <p>(c) Review as part of the audit of disclosures in the 2005-6 Statement of Internal Control.</p>	<p>(a) Progress has been made. Further guidance has been issued. Some training has been done as part of Finance compliance work across Business Groups – although the main training effort will be directed at the introduction of eProcurement, when staff will necessarily receive a refresh on all purchasing procedures. The update of the Fraud Response Plan is scheduled for Summer 2006.</p> <p>(b) Procedures are operating as stated in the "Management Assurances"</p> <p>(c) We are content that the Statement of Internal Controls correctly reflects the actions taken in-year. We have reviewed Internal Audit work and agreed that proper responses have been made to all their recommendations.</p>

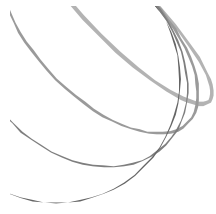
Risk	Management assurances	Planned audit action	Outcomes
<p>5. BLEEP Point of Sale system</p> <p>There is a risk of misstatement in the Financial Statements arising from continuing problems associated with the “electronic point of sales” BLEEP system in generating figures for income, cost of goods sold and stocks.</p>	<p>(a) A programme of improvements to the system was carried out during 2004-5 and has now been fully implemented.</p> <p>Further system problems were identified during the year and corrected.</p> <p>(b) Management have carried out regular checks of income figures and have identified some issues which need to be resolved before presentation of the draft Accounts. These are currently being addressed by Historic Scotland.</p> <p>(c) Management have identified that there are problems in reporting the cost of goods and stock figures. This is currently being investigated.</p>	<p>(a) We will conduct an ICT audit of the project to implement these changes.</p> <p>(b) We will review the evidence available from Historic Scotland that identifies the problems and details how they were resolved.</p> <p>(c) We will review the evidence available from Historic Scotland that identifies the problems and details how they were resolved.</p>	<p>(a) Our audit review of the project has concluded that it was properly implemented. Our IT auditors have carried out a high level review of information and communications technology projects. The projects included the implementation of the data warehousing and the e-procurement system (PECOS). See <i>paragraphs 27-28</i></p> <p>(b) Procedures for income reconciliations are well established and continued to operate properly throughout the year. Problems with the data generated by the BLEEP system were identified and resolved appropriately during the year.</p> <p>(c) Existing procedures for stock counts operated correctly through the year. Problems with the data generated by the BLEEP system were identified and resolved appropriately during the year.</p>

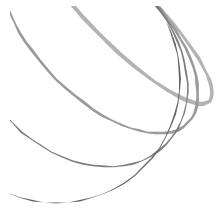


Risk	Management assurances	Planned audit action	Outcomes
<p>6. Fully Depreciated Assets There is a risk of misstatement in the Financial Statements arising from the continued use of fully depreciated assets</p>	<p>Following a review by Finance, the expected useful life of each category of asset will remain as in 2004-5. A further review will be undertaken of all fully depreciated assets to assess if they are in use.</p>	<p>We will assess the results of the Finance review.</p>	<p>We have reviewed Finance's work and agree that, although there are fully depreciated assets that continue in use, the impact on the Account disclosures in this year or in future years is not likely to be material.</p>



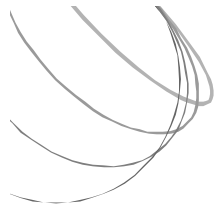
Risk	Management assurances	Planned audit action	Outcomes
<p>7. Reconciliation of Payroll</p> <p>There is a risk that no Staff-in-Post reconciliations of Payroll to Personnel records will have been performed during 2004-5 and 2005-6. There is a risk that additional mitigating controls have not been introduced in response to this weakness.</p>	<p>(a) Management are taking steps to address this problem and intends to carry out reconciliations for 2005-6.</p> <p>(b) There are proposals, as detailed in the response to our Report to Management on the 2004-5 Audit, to prepare Desk Instructions for such reconciliations and to produce monthly reports for the Human Resources Operation Manager.</p>	<p>(a) We will review that the reconciliations have been carried out, and, if appropriate, we will audit a sample of the reconciliations.</p> <p>(b) We will monitor the progress in implementing proposed improvements</p>	<p>(a) We reported in our interim Management Letter that no reconciliations had been completed on an on-going basis throughout 2005-6. At the time of our final audit we found that reconciliations had been properly completed retrospectively for 8 months of the year; the remaining 4 reconciliations will be completed by the end of November. We recognise that staff shortages have delayed this work, but emphasise that it is a critical control that should be given priority; an overpayment has already been identified from the reconciliations completed so far. We note that reconciliations for 2006-7 are being completed</p> <p>(b) Desk instructions are scheduled to be completed in September 2006. There are no proposals for reporting to the Operations Manager; desk instructions will clarify how to deal with, and report on, issues arising from completion of the reconciliations.</p>





Risk	Management assurances	Planned audit action	Outcomes
<p>8. eProcurement project</p> <p>The eProcurement project must be properly managed in order to deliver the proposed time-releasing savings and to address weaknesses in the current systems.</p>	<p>The project is following Prince 2 methodology.</p> <p>A Project Sponsor and Project Manager have been appointed. A project team has been established with objectives, milestones and reporting lines; monthly project monitoring reports are being produced.</p> <p>Internal Audit will be consulted at critical points in the development of the project.</p>	<p>Track management assurances through review of project monitoring reports, liaison with Internal Audit.</p> <p>ICT audits will be conducted at critical points in the development of the project.</p>	<p>Our IT auditors have carried out a high level review of information and communications technology projects. The projects included the implementation of the data warehousing and the e-procurement system (PECOS).</p> <p>See <i>paragraphs 27-28</i></p>

Risk	Management assurances	Planned audit action	Outcomes
<p>9. European 'Culture 2000' Project</p> <p>There are risks arising from the regulatory requirements attached to Historic Scotland's role as both a co-ordinator and a participant in a Europe-wide project, "Frontiers of the Roman Empire", under the Culture 2000 EC programme. There is a need to ensure that Historic Scotland have appropriate control mechanisms in place.</p>	<p>Historic Scotland has a contractual agreement with the EC for its co-ordination role. Historic Scotland has entered into contracts with all other participants to formalise the control mechanisms that will be implemented. Historic Scotland is developing a process to monitor expenditure by the participants.</p> <p>A specific Historic Scotland employee has been appointed as Project Manager for the co-ordination role. He will also manage the United Kingdom element of the project and control Historic Scotland's own expenditure.</p>	<p>We will audit the funding income stream and the expenditure brought to account in Historic Scotland's Financial Statements for 2005-6.</p> <p>We will track the development of monitoring arrangements.</p>	<p>We are satisfied with the current account disclosures of the transaction streams.</p> <p>Monitoring arrangements currently in place appear to address internal requirements to control the distribution of the first tranche of pre-funding from the EC.</p> <p>Historic Scotland has yet to receive a six-monthly report on all project expenditure from the consultant they have employed as a project administrator.</p> <p>We are informed that procedures will be developed to report to the EC in the requisite manner in December 2006.</p> <p>See <i>paragraph 30 and the Action Plan at Appendix B</i></p>



Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	30	<p>Culture 2000 Project</p> <p>The consultant employed by Historic Scotland as an Administrator is required by the terms of his contract to provide information on a six monthly basis detailing all project expenditure with full background details.</p> <p>The first report should have been provided by December 2005. This report has not been received and no report had been received at the end of June 2006.</p> <p>The critical point in the project's dealings with the European Community (EC) occurs in December 2006, when an interim report has to be submitted to support the draw down of the next 30% of the Grant. The report must cover eligible costs incurred analysed as per the agreement annex budget heads. We understand that procedures have still to be developed to produce this data.</p> <p><i>We recommend that Historic Scotland ensure they receive the relevant reports in a timely fashion from the consultant. A timetable should be put in place to ensure the required information is available to prepare the interim report to the EC by the deadline.</i></p>	<p>The required report has now been received. Mechanisms are in place to check the accuracy of the data for the interim report and this will be completed according to required deadlines.</p>	D Breeze	1 January 2007



Appendix C: Auditor General for Scotland published reports

Accounts Commission and Auditor General for Scotland

No hiding place: the National Fraud Initiative in Scotland (published 17/05/2006)

Scotland's councils have worked with other public bodies to identify £15m worth of fraud and errors in a national detection exercise.

Auditor General for Scotland

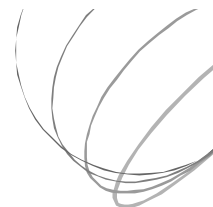
Leadership development. How Government Works (published 17/11/2005)

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services, says Audit Scotland.

Auditor General for Scotland

Scottish Executive: supporting new initiatives. How Government Works (published 10/11/2005)

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.



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