



SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW



**Scottish Screen National Lottery
Distribution Fund**

Annual Report to the Joint Board and the
Auditor General for Scotland
2006/07

August 2007

Scottish Screen National Lottery Distribution Fund

Annual Audit Report to the Joint Board and the Auditor General for Scotland 2006/07

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1 Summary

Governance

- The Scottish Executive announced in 2006 that Scottish Screen and the Scottish Arts Council will be replaced by a new body called Creative Scotland. Scottish Screen and the Scottish Arts Council have been operating under a Joint Board and related committee structure since 1 February 2007.
- The election of a new Scottish Parliament in May 2007 saw the advent of a new SNP minority administration. Any impact of this change on the future role and remit of Scottish Screen will become clearer once the new administration determines its vision for the future of the creative sectors.

Performance

- Scottish Screen National Lottery Distribution Fund (SSNLDF) has introduced new processes to be followed in approving award applications, which were introduced following the comprehensive review instigated by the Chief Executive in 2005/06.
- Underpinning these new guidelines are a project evaluation process and plans to extend the framework into a new CRM (Client Relationship Management) system. This will allow for robust monitoring of project performance and inform future decision making.

Finance

- Our audit opinion on the truth and fairness of the annual accounts and on the regularity of transactions is unqualified.
- The deadline for submitting final accounts will be achieved.
- SSNLDF received £2.332 million of lottery fund proceeds in 2006/07 and made net grant commitments of £2.168 million.
- SSNLDF reported a balance of £5.5 million held with National Lottery Distribution Fund as at 31 March 2007, and a net asset position of £3.403 million.

Conclusion

This report concludes the 2006/07 audit of SSNLDF, which we have performed in accordance with the Code of Audit Practice issued by Audit Scotland.

This report has been discussed and agreed with the Chief Executive and Chief Operating Officer/Company Secretary, and has been prepared for the sole use of the Scottish Screen Joint Board and the Auditor General for Scotland and Audit Scotland.

We would like to thank all members of management and staff who have been involved in our work for their co-operation and assistance during our audit.

Scott-Moncrieff

August 2007

2 Introduction

2.1 Auditor General and Audit Scotland

The Auditor General for Scotland is responsible for reporting to the Scottish Parliament on how public bodies spend public money, manage their finances and achieve value for money in the use of public funds. In discharging this responsibility the Auditor General appoints central government auditors and sets the terms of their appointment. The Auditor General has appointed Scott-Moncrieff as auditors of Scottish Screen National Lottery Distribution Fund (SSNLDF) for the five year period 2006/07 to 2010/11. Scott-Moncrieff are not the appointed auditors of Scottish Screen Limited or its subsidiary – Scottish Screen Enterprise Limited.

Audit Scotland is an independent statutory body that provides the Auditor General with the services required to carry out his statutory functions, including preparing a Code of Audit Practice setting out the role and responsibilities of the external auditor.

The purpose of this report is to summarise the results of our audit work for 2006/07. The report describes the ways in which the requirements of the Code of Audit Practice have been met by both SSNLDF and us.

2.2 Independence and ethical standards

Ethical Standard 1 – *Integrity, objectivity and independence*, issued by the Auditing Practices Board (APB), requires that external auditors ensure that the Audit Committee is appropriately informed on a timely basis of all significant facts and matters that bear upon the auditors' objectivity and independence.

We confirm that we have complied with APB Ethical Standards throughout our audit and that, in our professional judgement, we have remained independent and our objectivity has not been compromised in any way. In particular:

- a) There are and have been no relationships between Scott-Moncrieff and SSNLDF, its directors and senior management that may reasonably be thought to bear on our objectivity and independence,
- b) Scott-Moncrieff has not provided any consultancy or non-audit services to SSNLDF.
- c) Our external audit fees, including VAT, were £11,800 (including the Audit Scotland recharge of £1,300)

2.3 Key Risks

Our audits are risk based. This means that we focus our resources in the areas of highest priority or risk. The key audit issues identified for the 2006/07 audit were summarised in our external audit plan. These audit issues were:

- Governance arrangements with the move to Creative Scotland
- Pension disclosures
- Balances with Scottish Arts Council

This report reports on our findings in relation to these key risks.

2.4 Scope of the Audit

Our audit work can be classified under the following three headings: governance, performance and finance. The main audit objective for each of these areas is summarised below, along with the key priorities and risks for each area.

2.4.1 Audit areas and audit objectives

Audit area	Audit objective
Governance	To review SSNLDF's governance arrangements in relation to: <ul style="list-style-type: none">• systems of internal control and risk management,• the prevention and detection of fraud and irregularity,• standards of conduct and prevention and detection of corruption.
Performance	To review SSNLDF's arrangements for managing its performance and for securing economy, efficiency and effectiveness in its use of resources.
Finance	To provide an opinion on the truth and fairness of SSNLDF's financial statements and on the regularity of transactions. To review the SSNLDF's financial standing, and financial management arrangements.

The remainder of this report sets out the results of our work in 2006/07 under the headings of Governance, Performance and Finance. The action plan in section 6 details the recommendations we have made during the year.

3 Governance

3.1 Introduction

It is our responsibility to review Scottish Screen's governance arrangements, insofar as they relate to the National Lottery Distribution Fund, in relation to:

- systems of internal control and risk management,
- the prevention and detection of fraud and irregularity,
- standards of conduct and prevention and detection of corruption.

It is also our responsibility to review SSNLDF's governance arrangements in relation to the Fund's financial position. This is reported in section 5.

3.2 Creative Scotland

Following a review of the arts and creative sector in Scotland by the Cultural Commission, the Scottish Executive announced that Scottish Screen and Scottish Arts Council will be replaced by a new body called Creative Scotland. Whilst external consultation on the Culture Bill has now closed the Bill is still to move through the parliamentary process and only after which the definitive position will be known. This will have a significant impact on the structure and governance of the creative sector in Scotland.

A Joint Board for both Scottish Screen and Scottish Arts Council has already been established. The Joint Board will assist in developing a transition plan and monitoring the two organisations until the transfer of responsibilities to Creative Scotland. Richard Holloway - who up until the establishment of the Joint Board was chair of the Scottish Arts Council - has been appointed as Chair of this new Joint Board.

With such organisational changes to Scottish Screen on the horizon, the future of the SSNLDF has still to be clarified. Scottish Screen was appointed by the National Lottery Act 1993 (as amended). Any changes to Scottish Screen will not automatically lead to changes in the structure and status of the Lottery Fund. We recommend that Scottish Screen continues to discuss the arrangements for transfer of responsibility for the Fund from Scottish Screen to Creative Scotland with appropriate stakeholders.

3.3 Statement on Internal Control

The framework of internal controls operating within SSNLDF is reported within the Statement on Internal Control (SIC) included with the annual accounts. No significant areas have been identified which require to be raised within the SIC.

We are satisfied that the contents of the SIC are not inconsistent with information gathered during the course of our normal audit work.

3.4 Risk Management

Risk Management is important to the establishment and regular review of the system of internal control.

Scottish Screen has risk management arrangements in place. The risk register is used as a key management tool and is a standing item for discussion at management team meetings. The register includes those risks which could potentially result in the closure of Scottish Screen or its business, and those which may prevent it from achieving its strategic aims and objectives. Risks also include organisational change issues in respect of Creative Scotland.

Whilst there is a management process in place to discuss and review risk, there is no formal Risk Management Strategy document which brings together all the elements of the risk management approach currently adopted by SSNLDF. **(see Action Plan 6.2.1).**

3.5 Internal Audit

3.5.1 Review of internal audit service

Internal audit is a key component of Scottish Screen's corporate governance arrangements. SSNLDF's internal audit service is provided by Wylie and Bisset. We undertook a review of the work undertaken by Wylie and Bisset to ensure it was sufficient in quality and volume and performed in accordance with accepted internal audit standards.

The conclusion from our review was that Wylie and Bisset provides an effective internal audit service that complies with approved internal audit standards.

3.5.2 Co-ordination with internal audit

To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work in the following areas:

- Corporate Governance Arrangements
- National Lottery Expenditure
- National Lottery Value for Money Arrangements.

We are grateful to Wylie and Bisset for their assistance during the course of our audit work.

3.6 Fraud, Irregularity and Corruption

We are required to consider the arrangements made by management for the prevention and detection of fraud, irregularity and corruption. Our audit identified no instances of such within SSNLDF.

3.7 Standards of Conduct, Integrity and Openness

Propriety requires that public business is conducted with fairness and integrity. This includes avoiding personal gain from public business, being even-handed in the appointment of staff, letting contracts based on open competition and avoiding waste and extravagance.

Guidance on standards of conduct, accountability and openness has been issued by the Scottish Executive.

Our work in this area included a review of the arrangements against our standards of conduct checklist and review of the registers of interest. We are pleased to report that our audit identified no issues of concern in relation to standards of conduct, integrity and openness.

3.8 Chief Executive's Pay Award

In reviewing communications from the Scottish Executive regarding the Chief Executive's 5% pay award, we noted reservations in relation to the measurability and assessment of performance. The Scottish Executive emphasised that bonuses should only be payable where "objectives have been exceeded" or where performance is "beyond that expected". Accordingly, the Remuneration Committee should make a clear and comprehensive objective assessment of whether the performance against the criteria merits a bonus payment (**see Action Plan 6.2.2**). Whilst we understand that it is not always straightforward to make such an assessment, it is vital that SSNLDF are seen to have objective arrangements in place with regard to performance assessment.

3.9 Impact of the 2007 Scottish Parliament Elections

The election of a new Scottish Parliament in May 2007 saw the advent of a new SNP minority administration. Any impact of this change on the future role and remit of Scottish Screen will become clearer once the new administration determines its vision for the future of the creative sectors. A more definitive position is likely once the progress of the Culture Bill through parliament is known.

4 Performance

4.1 Organisational Review

The review instigated by the Chief Executive in 2005-06 led to an expansion of the areas which were able to source funding through the NLDF channel in 2006-07. This widening of scope led to a stated intention to support the screen industry over the following streams:

- Content development
- Content production
- Short film production
- Exhibition
- Distribution
- Festivals
- Audience development
- Pilot fund
- Future fund
- New Talent development initiative
- Business development
- Market and festivals
- The Singles – joint Scottish Screen and BBC initiative
- Express fund

4.2 Revised Investment Guidelines

Scottish Screen has introduced new processes to be followed in approving award applications. The Investment Committee (with delegated authority to make awards of between £50,001 and £500,000) is chaired by a member of the Board and attended by Officers of the Company, whilst the Investment Meeting (with delegated authority to make awards of up to £50,000) is chaired by the CEO and attended by Officers of the Company. External Assessors continue to support decision making, acting in an advisory capacity to assist Lead Officers in their assessment of applications.

SSNLDF have recognised the need to continually review assess project evaluation process, and have a standard system in place to capture such data. This information will be fed into a new CRM data-management system, which senior management are developing and implementing. This will facilitate improved analysis, which can best-inform future decision making on project awards within the Lottery Fund. We would expect that such a system would further assist SSNLDF in explicitly gauging the impact of its work and allowing it to feed into overall performance indicators for the NLDF.

4.3 Partnership Approach

Scottish Screen has stated its intention to continually seek to work in partnership with other stakeholders within the industry. In 2006/07, the first £89,000 of a total £600,000 two-year delegation arrangement was awarded to Skillset Sector Skills Council. As the first external delegation of funding made by SSNLDF, this represents a significant move for the organisation.

This delegation of funding to Skillset is indicative of the desire for Scottish Screen as a body to be seen as a key player at the strategic level within the UK screen sector. Working alongside such specialist partners allows Scottish Screen to achieve its aims and objectives yet ensure talent and creativity is given the required support.

4.4 Best Value

The previous External Auditor noted that revised Best Value guidance was issued in May 2006 and that without a review of the guidance Scottish Screen risked being unable to demonstrate their work on distributing lottery funds meets Best Value principles.

We have found no evidence in the course of our audit work to indicate that the entity has operated in a manner which is inconsistent with the securing of economy and efficiency. However, we agree with the previous external auditor that Scottish Screen should review itself against the revised Best Value Guidance.

5 Finance

5.1 Introduction

We are required to audit the financial statements in accordance with International Standards of Auditing and to give an opinion on:

- whether they give a true and fair view or present fairly the financial position of the audited body and its expenditure and income for the period;
- whether they have been prepared in accordance with relevant legislation and applicable accounting standards;
- on the regularity of the expenditure and receipts.

We are also required to review Scottish Screen's governance arrangements in relation to the financial position of the Fund.

5.2 Annual Accounts and Audit Timetable

We are pleased to report that the accounts are due to be approved by the Board on 31 August 2007 and are due to be submitted to the Scottish Executive and the Auditor General for Scotland thereafter.

Scottish Ministers have issued guidance to Scottish Screen requiring it to prepare separate annual accounts for its Lottery Fund. Scottish Screen is required to comply with the Financial Reporting Manual (FRoM) when preparing these financial statements. The SSNLDF 2006/07 accounts comply with the requirements of the FRoM in all material respects.

5.3 Unqualified Audit Opinion

Our audit opinions on the financial statements and the regularity of transactions are unqualified.

5.4 Financial Performance

SSNLDF received £2.332 million of lottery fund proceeds in 2006/07 and made net grant commitments of £2.168 million. The Fund held a balance of £5.5 million with the National Lottery Distribution Fund at the year end.

A surplus of £330,000 was achieved in 2006/07, resulting in a net asset position of £3,403,000 as at 31 March 2007.

5.5 Financial Management

SSNLDF has a responsibility to conduct its financial affairs in a proper manner. As part of our audit, we are required to consider the arrangements for financial planning, budgetary control and financial reporting.

Budgets are devised at the start of the year, approved by the Board, and are reviewed during the year to take account of new information. Management accounts are prepared to facilitate monitoring and review, and the cash position is also managed to ensure sufficient amounts are drawn down on a monthly basis to make award payments as they fall due.

5.6 Future Plans

Future projections by management show a similarly prudent position going forward, and maintenance of the SSNLDF balance.

It is noted, however, that National Lottery receipts are expected to be impacted upon by the London 2012 Olympic Games. Management have identified and continue to consider the impact this will have on the Lottery Fund, and have a balance of funds built up with the National Lottery Distribution Fund. This provides the organisation with a means to manage the financial impact of the reduced funding income, and maintain the resources to continue as a strong supporter of all aspects of the screen sector within Scotland.

5.7 External Delegation

During 2006/07, the organisation intended to delegate £299,469 to Skillset Sector Skills Council, and ended up actually paying over £89,375 during the year. This delegation is part of a £600,000, two-year programme and is indicative of the strategy of Scottish Screen to think and act in strategic partnership within the creative industries.

Scottish Minister's guidance sets out a number of conditions that Scottish Screen must met in order to delegate externally. Scottish Screen met all of these conditions, with the exception of having a finalised Framework Agreement in place. There was a draft agreement in place during the year, however, this was not signed by both parties until after the year end. Management should ensure that all documentation is completed and signed off prior to payment of any monies to an external body (**see Action Plan 6.2.3**)

5.8 International Financial Reporting Standards (IFRSs)

The Chancellor announced in his 2007 budget speech the decision to adopt IFRSs for the public sector by 2008/09. Whilst this does not have an immediate impact on SSNLDF's accounts, the Board should be aware of this issue as it could have implications for the future accounting approach.

6 Action Plan

Our annual report action plan details the control weaknesses and opportunities for improvement that we have identified during 2006/07. These are the issues that we believe need to be brought to the attention of the Joint Board.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

6.1 Priority Rating

To assist the Joint Board in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. The rating structure is summarised as follows:

Priority 1 High risk, material observations requiring immediate action.

Priority 2 Medium risk, significant observations requiring reasonably urgent action.

Priority 3 Low risk, minor observations which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of senior management.

6.2 Issues from our 2006/07 Audit

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.2.1</p> <p>Risk Management Approach</p> <p>Priority 2</p> <p>(Section 3.4)</p>	<p>Scottish Screen has established risk management arrangements, however, there is no formal Risk Management Strategy document which has been approved by the Board and/or Audit Committee, which brings together all the elements of the risk management approach currently adopted by SSNLDF.</p>	<p>The risk management process may not be approached in a manner which the Board and/or Audit Committee have explicitly deemed agreeable.</p> <p>Scottish Screen should formally document a Risk Management Strategy and present this to the Audit Committee for approval.</p>	<p><i>Scottish Screen has a comprehensive system of risk management that is well established and documented within SS's corporate documentation – extensive details of which are included with the Statement on Internal Control within the Lottery Financial Statements. Scottish Screen utilises a system for identification and management of risk which was reviewed at its establishment by the Board in December 2002, and in March 2003.</i></p> <p><i>The Risk Register is an item for review by the Audit Committee (regular review schedule for Management Team in place). Additionally an aim in moving towards CS is for the creation of a common format and approach for risk management for both SS and SAC.</i></p> <p><i>In light of this and the Board and Audit Committees adoption of the current system I do not see an identified risk or the added value of adoption of the recommendation at this stage.</i></p> <p><i>Responsible Officer: CEO and COO</i></p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.2.2</p> <p>Chief Executive Pay Award</p> <p>Priority 1</p> <p>(Section 3.8)</p>	<p>In reviewing communications from the Scottish Executive regarding the Chief Executive's 5% pay award, we noted reservations in relation to the measurability and assessment of performance. Further, it was emphasised that bonuses should only be payable where "objectives have been exceeded" or where performance is "beyond that expected".</p>	<p>Senior officers' pay is a politically sensitive issue and Scottish Screen should ensure that bonuses can be appropriately justified.</p> <p>We recommend that the criteria against which the Chief Executive's pay award will be measured should be robust, and follow "SMART" principles (Specific, Measurable, Achievable, Relevant and Time-bound), as far as is possible. The Remuneration Committee should make a clear and comprehensive assessment of whether the performance against the criteria merits a bonus.</p>	<p><i>As the CEO, the exercise of following 'SMART' principles is more difficult, as the nature of the role demands the setting and achievement of objectives which are challenging and intrinsically more subjective in interpretation and measurement. A concern would be that in meeting the requirement to set 'SMART' objectives, that the aspiration of the objective is lessened. This is a consideration that the Remuneration Committee will need to reflect upon moving forward in ensuring the Scottish Minister's comments are addressed.</i></p> <p><i>It should be noted that Executive guidance was followed in the submission of the CEO pay award and that there have been ongoing discussions with our Sponsor Department and Pay Policy with regard to this matter.</i></p> <p><i>Responsible Officer: Remuneration Committee</i></p>

Title	Issue Identified	Risk and Recommendation	Management Comments
<p>6.2.3</p> <p>External Delegations</p> <p>Priority 1</p> <p>(Section 5.7)</p>	<p>The Financial Directions of Scottish Ministers sets out the rules around Scottish Screen National Lottery Distribution Fund delegating funds to external bodies. During 2006/07, the organisation delegated £299,469 to Skillset Sector Skills Council, with £89,375 being paid over during the year.</p> <p>Scottish Screen did not have the Framework Agreement signed by both parties at the date the transfer payment was made.</p>	<p>Scottish Screen's position is weakened should an issue arise with the relationship with the delegated body, and there is a risk of non-compliance with relevant laws and regulations.</p> <p>Management should ensure that all documentation is completed and signed off prior to payment of any monies to an external body, regardless of the extent to which a close and ongoing relationship exists in other aspects of operations.</p>	<p><i>As communicated to the Auditors, this was an exceptional instance and not reflective of SS processes. All Directions of the Scottish Ministers were rigorously followed and at no time was a risk to SS's position identified.</i></p> <p><i>Although the Framework Agreement (FA) had not been signed at the time of the 1st payment, the extensive process of regulatory compliance, as required in the delegation of Lottery funds had been successfully completed, with the FA undergoing 15 revisions. All other agreements and documentation were complete at the time of payment – Letter of Intent issued from SS to Skillset; Notification of delegation issued to Scottish Executive and DCMS; SS appointed External audit and report completed; SS Accountable Officer (AO) letter issued to Skillset AO; Statement of assurance from Skillset AO to SS AO issued; and all of the following signed - 'Strategic Partnership Agreement, Secondment Agreement, Service Level Agreement; as well as a receipt of the signed trust payment letter.</i></p> <p><i>Responsible Officer: CEO, COO, Head of Business Affairs</i></p> <p><i>Implementation Date: Completed</i></p>

6.3 Follow Up of issues from the 2005/06 audit

Title	Original Issue Identified	Original Management Comments	Update at August 2007
6.3.1	Pension disclosures in the Remuneration Report do not fully comply with the FReM.	<p>The Chief Operating Officer will contact the actuaries to establish the mechanism of accessing this information for inclusion within Financial Statements for 2006/07.</p> <p>Responsible Officer: COO</p> <p>Implementation Date: 28 Feb 2007</p>	<p>An enhanced pension disclosure has been provided in the 2006-07 accounts and we found this to be satisfactory.</p> <p>No further action required</p>
6.3.2	Disclosure of award creditors does not comply with the Accounts Direction requirement to state when these will fall due.	<p>Scottish Screen has satisfied the Accounts Direction as far as is reasonably practicable by the expansion of the section 'Accounting for funding awards' within the accounting policies to include the following: <i>"Due to the nature of the projects supported it is not possible to reliably identify creditors over 12 months, therefore all hard commitments payable are prudently recognised in the balance sheet as current liabilities."</i></p> <p>Scottish Screen will consider this requirement in the development of the CRM system.</p> <p>Responsible Officer: COO</p> <p>Implementation Date: 31 March 2007</p>	<p>This accounting policy continues to be adopted by SSNLDF, given the uncertain nature of the payment streams for the various awards made.</p> <p>Whilst we would welcome any future initiative categorising payments in a manner as set out in the Accounts Direction, we agree that such an approach is not in keeping with the way in which the screen industries operate.</p> <p>Accordingly, we have accepted the prudent full "first year recognition" approach.</p> <p>No further action required</p>

Title	Original Issue Identified	Management Comments	Update at August 2007
6.3.3	It was established that a material de-commitment of a prior year award had not been notified to Finance, creating a material error in early drafts of the accounts. Scottish Screen risk not recording future de-commitment decisions without implementing additional controls e.g. a year-end review of committee minutes to identify all de-commitment have been identified and reported to finance.	<p>This was an exceptional instance resulting from an unusual and complex project. Additionally the decision was made during the moratorium period when no investment meetings were being held, these factors resulted in the project not being formally ratified in the minutes of the next meeting held. It was this omission which resulted in the non-notification to Finance.</p> <p>As a further control all minutes will be reviewed on an ongoing basis and at the year end to ensure all de-commitments are identified and notified to Finance.</p> <p>Responsible Officer: COO/Investment Administrator</p> <p>Implementation Date: 31 March 2007</p>	<p>We have reviewed the working papers and the de-commitment disclosure and have not found there to be any material errors in this area.</p> <p>No further action required</p>
6.3.4	The 'grants paid' figure within the Reconciliation of Movement of Funds in the accounts includes £9,000 that Scottish Screen has been unable to reconcile to its awards records for the past two years. There is a risk of incomplete records, or of the payments figure being misstated.	<p>The Senior Accountant will undertake a review to establish the source of this discrepancy and make the appropriate adjustment.</p> <p>Responsible Officer: COO/Senior Accountant</p> <p>Implementation Date: 31 March 2007</p>	<p>We have not identified any material issues with the Reconciliation of Movement of Funds.</p> <p>No further action required</p>

Title	Original Issue Identified	Management Comments	Update at August 2007
6.3.5	<p>The accounts include some very old balances with SAC: debtors of £36,575 and creditors of £63,372, which did not move at all during 2005/06. There are risks that these funds, which are owned by SSNLDF, are unavailable for a variety of purposes including cash flow, re-allocation, and earning of interest.</p>	<p>There are 2 separate matters here:</p> <p>Debtors - Business Affairs has been in contact with the SAC with regard to concluding this matter, and will continue to chase. The COO has contacted the Finance Director at SAC to escalate the matter and have gained confirmation that this matter will be addressed. We will continue to pursue and are confident of full recovery.</p> <p>Creditors – This relates to projects awarded funding by SAC. We will undertake a review of these projects during the year 2006/07.</p> <p>Responsible Officer: COO/Business Affairs/Investment Administrator</p> <p>Implementation Date: 31 March 2007</p>	<p>There has been notable movement on both matters during 2006/07, and our discussions with the COO leads us to expect that these balances will be fully dealt with during 2007/08.</p> <p>We do not consider these balances to be material for the purposes of the 2006/07 audit.</p> <p>Ongoing</p>
6.3.6	<p>In 2004/05, the external auditors highlighted that no recharge had been made from Scottish Screen's account to the NLDF for the cost of internal audit services in respect of Lottery income and expenditure. At a rough estimate, the amount concerned was only £2,000. There was again no recharge in 2005/06. The accounts risk not showing the accurate costs of administering lottery funds.</p>	<p>We will undertake to make a charge to the NLDF for financial year 2006/07 for a proportion of the Internal Audit Fees, relative to the Lottery aspect of the work.</p> <p>Responsible Officer: COO/Senior Accountant</p> <p>Implementation Date: 31 March 2007</p>	<p>A charge of £2,000 has been made to the NLDF for financial year 2006/07.</p> <p>No further action required</p>

Title	Original Issue Identified	Management Comments	Update at August 2007
6.3.7	Revised Best Value guidance was issued in May 2006. Without a review of the guidance Scottish Screen risk not being able to demonstrate their work on distributing lottery funds meets Best Value principles.	<p>Scottish Screen recognises its responsibilities with regard to Best Value, and will continue to reflect this in undertaking its activities and through its commitment to continuous improvement; effective governance at strategic and operational levels; stakeholder consultation, etc.</p> <p>Responsible Officer: Chief Executive/COO</p> <p>Implementation Date: 31 March 2007</p>	<p>We have found no evidence in the course of our audit work to indicate that the entity has operated in a manner which is inconsistent with the securing of economy and efficiency.</p> <p>However, we agree with the previous external auditor that Scottish Screen should review itself against revised Best Value Guidance.</p> <p>Ongoing</p>
6.3.8	There has been no recent tendering process for legal fees, which have been regularly paid to a legal firm in London under a long-standing arrangement. In addition to the risk of not following its own procurement and contracting procedures, Scottish Screen risks not obtaining, or being able to demonstrate that is has obtained, value for money for legal services.	<p>Scottish Screen recognises this point and has considered it in respect of this arrangement. However, it believes that the current arrangement delivers a resource that is both cost-effective and provides a unique level of specific and uncommon specialist knowledge and understanding.</p> <p>During the year 2006/07, Scottish Screen will examine its requirement for legal advice across the organisation and, as required, will invite tenders from prospective companies.</p> <p>Responsible Officer: COO/Business Affairs</p> <p>Implementation Date: 31 December 2006</p>	<p>Legal expenditure has reduced by some 50% in 2006/07, and has been impacted by the increasing use of in-house legal resource this year. This has reduced the need to rely on external firms in this respect.</p> <p>We understand that Scottish Screen is planning to address this point during 2007/08 by progressing with an external tendering exercise to create a pool of legal expertise which can be called upon. In particular, they are keen to develop such expertise within the Scottish legal sector, if possible.</p> <p>Ongoing</p>



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