



SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW



Scottish Arts Council

**Annual Report to the Joint Board and the
Auditor General for Scotland**

2008/09

August 2009



SCOTT-MONCRIEFF

EDINBURGH AND GLASGOW

Scottish Arts Council

Annual Report to the Joint Board and the Auditor General for Scotland

2008/09

Key Messages	1
Introduction	3
Financial Statements	4
Use of Resources	9
Governance	12
Performance	17
Appendix 1: Audit Adjustments	18

Key Messages

We have given an unqualified opinion on the financial statements of both the Scottish Arts Council group and Scottish Arts Council National Lottery Distribution Fund. The draft financial statements were presented for audit by the agreed date. Audit adjustments were agreed with the Head of Finance.

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.

Corporate Governance is concerned with the structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance arrangements at the Scottish Arts Council are operating well, as reflected in the Statement on Internal Control.

We did not identify any major error or system weaknesses during our review.

Looking Forward

The Public Services Reform (Scotland) Bill was introduced in May 2009. This bill proposes the establishment of Creative Scotland which will replace both the Scottish Arts Council and Scottish Screen. The Government proposes that *“Creative Scotland will be substantially different from the two existing bodies (and) achieve a coordinated approach to supporting and developing arts and culture”*. This suggests there will be a significant governance impact and changes will be required to strategic and operational planning.

Scottish Arts Council and Scottish Screen have been operating under a Joint Board and related committee structure since 1 February 2007 and will continue to do so until the establishment of Creative Scotland in 2010. From January 2009, the Scottish Arts Council and Scottish Screen Boards have held individual meetings and joint meetings to allow management to focus on both individual organisational responsibilities as well as joint working arrangements.

During 2008/09, Creative Scotland 2009 Ltd was established to facilitate the transition process. Creative Scotland 2009 Ltd has taken responsibility for all the practical implementation arrangements to establish Creative Scotland, including staffing, systems and processes.

Conclusion

This report concludes our audit of the Scottish Arts Council for 2008/09. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the Chief Executive and Finance Director. We would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
August 2009

Introduction

1. This report summarises the findings from our 2008/09 audit of the Scottish Arts Council group (the Council) and Scottish Arts Council National Lottery Distribution Fund (SAC NLDF). The Council is a group account comprising core activities plus one subsidiary; the Centre for Contemporary Arts (CCA).
2. The scope of our audit was set out in our External Audit Plan, which was presented to the Joint Audit Committee in November 2008.
3. The Code of Audit Practice, prepared by Audit Scotland and approved by the Auditor General for Scotland, sets out the ways in which auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. With reference to the Code of Audit Practice, the main elements of our audit work in 2008/09 have been:
 - Audit of the financial statements, including a review of the Statement on Internal Control
 - Review of governance arrangements
 - Review of internal controls and financial systems
 - Review of SAC NLDF's restated balance sheet as at 31 March 2008 to comply with International Financial Reporting Standards (IFRS)

The key issues from these outputs are summarised in this annual report.

4. As part of our audit we have also made use of the work of internal audit. The Scottish Government's Internal Audit Division provided a one year core internal audit service to both the Scottish Arts Council and Scottish Arts Council National Lottery Distribution Fund in 2008/09. The main findings from their review are referred to in this report.
5. This report is addressed to the Joint Board and the Auditor General for Scotland and will be published on Audit Scotland's website, www.audit-scotland.gov.uk

Financial Statements

6. In this section we summarise the key outcomes from our audit of the 2008/09 financial statements for the Scottish Arts Council group (the Council) and Scottish Arts Council National Lottery Distribution Fund (SAC NLDF). We also report on the work which we have undertaken on International Financial Reporting Standards (IFRS).

Our responsibilities

7. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position and expenditure and income for the year then ended;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - whether the information which comprises the Directors Report is consistent with the financial statements; and
 - the regularity of the expenditure and receipts.
8. 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. We assess whether disclosures in the statement are consistent with our knowledge of the Council and SAC NLDF.

Independence

9. International Standard on Auditing 260 – Communication of Audit Matters with those Charged with Governance – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
10. We provided no additional services to either the Council or SAC NLDF during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Directors' Responsibilities

11. The directors' statutory responsibilities include:
- Maintaining proper accounting records and an effective system of internal control;
 - Safeguarding assets;
 - Preparing the financial statements in accordance with the relevant accounting standards;
 - Taking reasonable steps for the prevention and detection of fraud and other irregularities; and

- Ensuring sound corporate governance and the proper conduct of the organisation's operations.

Overall conclusion

12. We are pleased to report that our independent auditors' report expressed an unqualified opinion on the financial statements for the year ended 31 March 2009 (for both the Council group and SAC NLDF) and on the regularity of transactions reflected in those financial statements.
13. We received draft annual accounts and supporting papers of a high standard on 22 June 2009 in line with our agreed audit timetable. The audit process ran smoothly, and our thanks go to the Finance team for their assistance with our work.

Accounts Direction

14. The Council is required, in preparing its financial statements, to comply with the directions given by Scottish Ministers. The Direction by Scottish Ministers requires the Council to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM).
15. As the Council has charitable status, it is also required to comply with the Charities Statement of Recommended Practice (Charities SORP). We are pleased to report that the 2008/09 annual accounts of the Council comply with the revised SORP in all material respects.
16. Under the National Lottery etc Act 1993 (as amended), the Council is appointed to distribute National Lottery funds for expenditure on or connected with the arts in Scotland. Scottish Ministers' guidance requires the Council to prepare separate statements of accounts relating to these activities.
17. The Direction by Scottish Ministers also requires SAC NLDF to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM).
18. We are pleased to report that the 2008/09 financial statements for both the Council and SAC NLDF comply with the 2008/09 edition of the FReM which was in force for the year when the statement of accounts were prepared.

Audit Adjustments

19. We identified no major errors or weaknesses during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation. All adjustments were agreed with the Head of Finance and both sets of financial statements have been amended to reflect these adjustments.
20. Appendix 1 outlines the audit adjustments made to the Council and SAC NLDF financial statements. The net effect on each set of financial statements is as follows:

	Council £'000	SAC NLDF £'000
Net deficit per 1 st draft accounts	(1,326)	(12,643)
Net effect of adjustments made during the audit	47	(383)
Revised deficit per final accounts	(1,279)	(13,026)

Summary of issues arising from the audit of the financial statements

21. In order to assist the directors' understanding of the financial statements, we have summarised below some of the issues that we believe are of particular significance to the 2008/09 financial statements. Where applicable, we consider the Council and SAC NLDF's treatment of these issues in the financial statements to be reasonable.

Loss of Lottery Income due to 2012 Olympics

22. In February 2008, a statutory instrument (SI 2008 No.255 'The payments into the Olympic Lottery Distribution Fund etc.') was passed which allowed for the transfer of up to £1,085 million from the National Lottery Distribution Fund to the Olympic Lottery Distribution Fund (OLDF). This transfer will contribute to some of the costs of hosting the 2012 games.
23. SAC NLDF is expected to contribute over £12 million to the OLDF. During 2008/09 SAC NLDF transferred £0.840 million to the OLDF. In line with other national lottery distribution funds, SAC NLDF has disclosed the transfer of these amounts in its income and expenditure account.

Going Concern

24. Following a review by the Cultural Commission into the arts and creative sector, the then Scottish Executive announced that the Scottish Arts Council and Scottish Screen will be replaced by a new body called Creative Scotland (paragraph 69). The creation of Creative Scotland is expected to lead to the winding up of the Council.
25. In accordance with the applicable accounting standards, the Directors of the Joint Board have assessed whether there are any uncertainties over the Council's ability to continue as a going concern. The Directors consider the going concern basis to be appropriate as assets, liabilities and operations of the Council are likely to transfer to the new body. The future financing of the Council's liabilities will be met by grant-in aid. The comprehensive spending review in 2007 set out funding for the Council for the three year period commencing 2008/09.
26. The future of SAC NLDF has however still to be clarified. The Council was appointed under the National Lottery Act 1993 (as amended) and any changes to the Council will not automatically lead to changes in the structure and status of the Lottery Fund. We understand that the Scottish Government and the Council are in discussion with the Department for Culture Media and Sport (DCMS) with regard to the transfer for responsibility of the fund. SAC NLDF financial statements have been prepared on a going concern basis. The Directors are of a view that the going

concern basis remains appropriate as the assets, liabilities and operations would transfer to the new organisation.

Accounting and internal control systems

27. In the absence of a full internal audit service in 2008/09 (paragraph 56), we agreed with the Council to extend the scope of our audit. Detailed audit work was undertaken on the following key financial systems:
- Grants system
 - Payroll system
 - Creditors system
 - Banking
 - Nominal ledger
28. Overall we concluded that the systems of internal financial control were operating at an adequate or effective level. Recommendations were included in our interim management report presented to the Council.

Regularity

29. 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 our systems and financial statements audit which we have undertaken. No significant issues were identified for disclosure.

International Financial Reporting Standards

30. It was announced in the 2007 budget speech that central government and health bodies would be required to report their accounts on an International Financial Reporting Standards (IFRS) basis from 2008/09. During the 2008 Budget speech the Chancellor postponed the implementation until 2009/10. The implementation of IFRS is the most significant change in public sector financial reporting in recent times.
31. Because the Council is a charitable NDPB it will not have to adopt IFRS. Each public body in Scotland is issued with an Accounts Direction from Scottish Ministers which establishes the financial reporting framework which they must comply with. Public bodies will be issued with new Accounts Directions which will require that financial statements are prepared in accordance with the IFRS based Government Financial Reporting Manual (iFReM) from 2009/10. The iFReM states that where a NDPB is incorporated as a charity it should comply with the requirements of the Charities SORP 2005 which is on a UK GAAP basis, and therefore the Council will not be adopting IFRS in the short-term.

32. SAC NLDF however will be required to prepare its financial statements on an IFRS basis from 2009/10. In February 2009, we reported on our review of SAC NLDF's 31 March 2008 IFRS restated balance sheet. Since then, the Scottish Government has confirmed the IFRS transition timetable that SAC NLDF will be expected to follow:
- 28 November 2008 – opening 2008 IFRS-based balance sheet to be presented to auditors for review (achieved).
 - 28 February 2009 – auditor review of opening balances to be completed (achieved).
 - 30 November 2009 – 2008/09 shadow IFRS-based financial statements to be completed.
 - 28 February 2010 – auditor review of 2008/09 shadow IFRS-based financial statements to be completed.
33. In line with the above timetable, we will review the shadow IFRS based financial statements in February 2010.

Looking Forward

Centre for Contemporary Arts

34. The Council is the sole member of the Centre for Contemporary Arts (CCA) and as such CCA is consolidated into the Council's group accounts. These measures were previously implemented to put into effect a financial rescue of the CCA by the Council and the Council has been considering different options to dispose of both its interest in the subsidiary and the property, which is jointly owned by the Council and CCA.
35. The Council has recently drafted and presented to CCA a memorandum of understanding which sets out proposals to dispose of the Council's interest in CCA. The proposals include the transfer of the property back to SAC (with a subsequent lease to CCA) and arrangements for future funding of CCA. These proposals, if agreed with CCA, will impact on the Council's future financial statements.

Use of Resources

Financial Results

Scottish Arts Council Group

36. In 2008/09, the Council paid and committed £43.180 million in grants (2007/08 £41.358 million). The Council's total resources expended (£49.937 million) were met by grant in aid from the Scottish Government (£46.902 million) and other income (£1.994 million). The Council reported net outgoing resources in the year of £1.279 million. This is in comparison with net incoming resources in 2007/08 of £2.014 million.

Scottish Arts Council NLDF financial performance

37. The table below provides an extract of the key financial information from the SAC NLDF 2008/09 financial statements:

	2008/09 £000s	2007/08 £000s
Lottery proceeds	16,949	16,737
Grant expenditure and art services	28,365	14,986
Total outgoing resources	30,132	16,027
Increase / (decrease) in fund	(13,026)	909
General Fund	286	13,312
Source: National Lottery Distribution Fund financial statements 2008/09		

38. SAC NLDF set a balanced budgeted in 2008/09 based on lottery fund proceeds of £15.260 million. During the year the budgeted expenditure increased to £32.320 million. The budgeted deficit was met through reserves.
39. During the year four major capital grant awards became hard commitments (see below). The capital grant applications for these awards were made a number of years ago. Due to the scale and nature of these applications, a high level of preparatory work was required to be carried out to finalise the application. This included, for example, securing planning permission. SAC NLDF earmarked funds (through an accumulation of reserves) to support these grant awards. As a result, the level of reserves has decreased from £13.312 million to £0.286 million during the year.
40. The four major capital grants awarded during the year were as follows:
- Edinburgh sculpture (£2.4 million)
 - Greenock Arts Guild (£2.7 million)
 - Peacock visual arts (£4.3 million)
 - Shetland arts development agency (£2.1 million)

Financial Planning – 2009/10 onwards

41. On an annual basis, the Council produces a business plan which sets out how it intends to deliver its six key priorities. The key priorities were identified through a Strategic Review (carried out in 2005/06) and incorporated into its 2007-2009 Corporate Plan.
42. The Council's 2009/10 business plan highlights that the core grant in aid for 2009/10 remains at the same position as in 2008/09 (£32.3 million). As with other public sector organisations, the Council is also expected to achieve 2% efficiency savings year on year.
43. The Council is identifying, assessing and progressing on a portfolio of likely efficiency improvements. These include, for example:
 - Optimising the use of staff resources
 - Redeployment of budget originally earmarked for the cost of the change process
 - A commitment to identify £73,000 cash releasing efficiencies from its 2009/10 internal cost structure
 - Increasing the recycle rate of grants awarded
 - Provision of governance and accounting services for other arts organisations
 - Review of infrastructure
44. The Council has also planned for the reduction in lottery fund income due to its contribution to the Olympic Lottery Distribution Fund (OLDF, paragraph 22).
45. The sector is committed, as a whole, to business continuity during the transition to Creative Scotland (paragraph 52). A scheme of delegation exists with regard to grant award decisions. All grant award decisions over £1 million are approved by the Joint Board. In addition all decisions taken under delegated authority are reported to the Joint Board. During this period of transition, all grant award decisions and major commitments approved by the Joint Board which may have an impact on Creative Scotland are referred to Creative Scotland 2009 Limited for consideration.
46. The Scottish Government has provided an Innovation Fund worth £5 million to Creative Scotland 2009 Limited to support Scotland's artists and practitioners. At present the Council are administering a significant proportion of this fund on Creative Scotland's behalf.

Budgetary Control

47. In 2008/09, the Scottish Government Internal Audit Division (IAD) reviewed the Council's budgetary processes including:
 - Arrangements for determining provisions/allocations
 - Forecasting expenditure/setting financial profiles
 - Monitoring and reporting of expenditure

48. The Scottish Government IAD concluded that all required budgetary controls are in place and related systems were well managed. They concluded that “*the Council’s budgetary processes were robust and that the overall system of financial control is sound*”.
49. We have placed reliance on the findings made by the Scottish Government IAD (paragraph 56).

Governance

50. Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the higher levels of organisations. Through its Accountable Officer, the Council and SAC NLDF are responsible for ensuring the proper conduct of its affairs including compliance with relevant guidance, the legality of activities and transactions and for monitoring the adequacy and effectiveness of these arrangements.
51. This section sets out the main findings from our review of the Council and SAC NLDF's corporate governance arrangements. It also includes comments on the transition to Creative Scotland.

Governance Arrangements

Joint Board

52. Following the expectation that the Council and Scottish Screen would be replaced by Creative Scotland (paragraph 69), a new joint board was established on 1 February 2007. This joint board is responsible for directing the operations of both the Council and Scottish Screen. Appointments were made through the Commissioner for Public Appointments in Scotland. Until January 2009, the Joint Board considered business in relation to the Council, Scottish Screen and the transition to Creative Scotland. Individual meetings/sessions however are now held to discuss separately the business of each of these organisations. The Joint Board is responsible for ensuring "business as usual" for the sector.

Audit Committee and Remuneration Committee Arrangements

53. The Council has both an audit committee and remuneration committee. As part of the Scottish Government IAD review (paragraph 56), they considered the role of both the Audit Committee and Remuneration Committee. Overall the Scottish Government IAD concluded that the overall framework was managed in an effective manner. They did however recommend that the terms of reference for each committee were enhanced to include the roles, full range of responsibilities, rights, meeting procedures and information requirements.

Management Arrangements

54. Since 2006/07 the Council has had an acting Chief Executive. This position had not been made permanent due to the imminent development of Creative Scotland. In October 2008, however this appointment was made permanent. As a result, the Chief Executive's performance is being formally assessed and his salary is set by the Remuneration Committee.

Statement on Internal Control

55. The framework of internal controls operating within the Council and SAC NLDF are reported within the Statement on Internal Control (SIC) included within each set of 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 our normal audit work and that the statement is in line with Scottish Ministers' guidance.

Internal audit

56. The Council commissioned the Scottish Government's IAD to provide a one-year core internal audit service to both the Council and SAC NLDF for 2008/09. The scope of their audit work, as approved by the Joint Audit Committee in November 2008, included a review of the Council and SAC NLDF's governance arrangements, risk management arrangements and key elements of the control framework. Based on the work undertaken, Scottish Government's IAD provided the highest level of **substantial** assurance, indicating risk and control systems are generally sound and well managed.
57. Overall the Scottish Government IAD concluded that the Council's network of control is robust and well managed. Twelve recommendations were raised to strengthen the existing control environment, of which five were assessed as medium risk and seven as low risk. No recommendations were assessed as high (serious risk exposure or weakness requiring urgent action). The findings from the review have informed the Chief Executive's review of the effectiveness of the system of internal control.
58. Effective co-ordination between internal and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. During the year we carried out a review of the Scottish Government's internal audit work to ensure it was of sufficient quality and volume and performed in accordance with accepted internal audit standards. Overall we concluded that the review undertaken by the IAD was sufficient in quality and performed in accordance with accepted internal audit standards. We therefore placed reliance on their work during the year in relation to risk management and governance arrangements. Their findings are referred to throughout this report.

Internal audit provision for 2009/10 onwards

59. The internal audit service provided by the Scottish Government Internal Audit Division was an interim solution for 2008/09. The internal audit service for 2009/10 has recently been put out to competitive tender. The provision of this internal audit service will extend to Creative Scotland in its first year of existence.

Risk management

60. An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation. During 2008/09 we placed reliance on the work of the Scottish Government IAD with regard to risk management.
61. The Scottish Government IAD reviewed the Council's risk management arrangements during the year and overall concluded that the "*processes underlying the identification, analysis, control,*

review and management of risk to be robust'. The review noted the following controls in place at the Council:

- Risks are identified, linked to business objectives and evaluated as part of the business planning process;
- A risk management policy has been determined and published and is subject to regular review;
- A risk register has been established and the content is regularly updated and is subject to review by Heads of Department and the Audit Committee;
- Risk data includes details of mitigating actions and the responsible officer;
- Risks are reviewed regularly;
- Finance Director acts as Risk Manager; and
- Staff throughout the business comply with risk management standards

Prevention and detection of fraud and irregularity

62. The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our responsibilities in this area are addressed in a number of ways:

- Our systems based audit approach to the major accounting systems is planned so as to provide a reasonable expectation of detecting material misstatements resulting from fraud or error
- We focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas
- We review the Audit Scotland Technical Bulletins with regard to fraud reports and ensure that the authority has adequate arrangements in place to stop similar frauds occurring
- We examine the key governance documents issued by the organisation to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control

63. Our review was informed by the work of the Scottish Government IAD who noted that whilst the Council has a suitable fraud policy which was prepared in 2005, it is in need of an update to take account of various changes, and this opportunity could be taken to bring the material more in line with the Scottish Public Finance Manual (SPFM) requirements.

64. Overall we concluded that the arrangements in place are satisfactory to prevent and detect fraud and other irregularities.

Standards of conduct, integrity and openness

65. 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.

66. During our audit we considered the arrangements that the Scottish Arts Council has in place for adopting and reviewing its financial procedures, financial authority levels and codes of conduct. Overall we concluded that the arrangements at the Council are generally adequate in relation to standards of conduct, integrity and openness in its dealing with its employees and the public.

Legality

67. We have planned and performed our audit recognising that non-compliance with statute or regulations may materially effect the financial statements. Our audit procedures included the following:

- Reviewing minutes of relevant meetings;
- Enquiring of senior management and the company's solicitors concerning litigation, claims and assessments;
- Performing a company search; and
- Performing detailed testing of transactions and balances.

68. We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Creative Scotland

69. Following a review of the arts and creative sector in Scotland by the Cultural Commission, the then Scottish Executive announced that the Scottish Arts Council and Scottish Screen will be replaced by a new body called Creative Scotland. This will have a significant impact on the structure and governance of the creative sector in Scotland. Legislation which will give statutory powers to the new organisation was presented to the Scottish Government in May 2009 through the Public Services Reform (Scotland) Bill. It is expected that Creative Scotland, a statutory NDPB, will be formally established in 2010 and will:

- Encourage and sustain artists and creators of all kinds
- Ensure that their work is accessible to all
- Ensure that as many people as possible can participate in creative activities
- Extend and increase the wider benefits of arts and culture, including their contribution to the promotion and development of our unique national culture and its wider place in the international sphere (*Scottish Government 2009*)

70. During 2008/09, Creative Scotland 2009 Ltd was established to facilitate the transition process. Creative Scotland 2009 Ltd has taken responsibility for all the practical implementation arrangements to establish Creative Scotland, including staffing, systems and processes. The Board of Creative Scotland 2009 Ltd comprises of six non-executive directors and meets on a monthly basis. A transition director has also recently been appointed to lead the transition team. A twelve month transitional plan has been created which sets out the timetable for the creation of Creative Scotland.

71. To date, the cost of the transition work has been shared between the Council and Scottish Screen, the Council funding the majority of the costs. We understand however that the Scottish Government has agreed to meet the transition costs and that the resources available to support the arts sector will not be affected by these costs. The Council has incurred costs of £0.438 million in relation to transition during the year (2007/08: £0.234 million). The costs incurred can be broken down as follows:

Breakdown of transition costs		
	2008/09 £000s	2007/08 £000s
Consultancy Fees	146	131
Wages/Salaries/Expenses	117	68
Salaries (Secondment from Scottish Arts Council)	72	20
Recruitment Consultant Costs	52	-
Hospitality	13	10
Legal/Professional Fees	20	-
Other Office Supplies	3	5
Scottish Screen Shared Costs	15	-
Total	438	234

Source: Scottish Arts Council records

72. The Joint Board, Transition Team and Scottish Government are currently considering issues relating to organisational structure, status and timescales for enactment of the Parliamentary Bill, should it receive parliamentary approval. These include, for example:

- **Location:** The Joint Board has agreed that Creative Scotland will operate from both the Council and Scottish Screen premises for a two year period to enable work on organisational restructuring and exploration of location options and costs to be considered.
- **Arts Council Retirement Plan:** The Council is a member of the Arts Council Retirement Plan (ACRP) which is a multi-employer scheme. Scottish Screen on the other hand is an admitted body to the Strathclyde Pension Fund (SPF). Work has been ongoing with the Government Actuaries Department and external legal advisors to consider the options for the pension provision for Creative Scotland. Based on this work the Joint Board has agreed that Creative Scotland be admitted to both the ACRP and SPF, with existing employees remaining in their present scheme and new employees being able to join the Arts Council Retirement Plan.

Performance

Quality Framework

73. The Council launched its Quality Framework in March 2007. The Quality Framework is a set of guidelines for arts organisations. Arts organisations in receipt of grant funding from the Council are expected to comply with these guidelines. Foundation organisations are required to report to the Scottish Arts Council on all areas of the Quality Framework and any organisation funded on a flexible basis is required to report primarily against artistic leadership.
74. The Council commissioned external consultants to perform an independent review of the Quality Framework. A revised framework was launched in 2009 and builds on the evaluation and feedback from organisations which use the framework and the independent evaluation. No major changes were introduced in the revised framework.

Best Value

75. Best Value is defined as the continuous improvement in the performance of functions. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform. The *Scottish Public Finance Manual* now places a duty on the Chief Executive, as Accountable Officer, to make arrangements to secure Best Value. Additionally, the Scottish Government's response to the Crerar scrutiny review credited the Best Value regime as a key driver of modernisation and improvement in public services.
76. Audit Scotland is piloting an approach to auditing Best Value based on a review of the 'Use of Resources' which has been categorised across Financial Management, Efficiency, Information Management, Procurement, Asset Management, Performance Management and People Management.
77. For 2008/09, Audit Scotland applied an 'efficiency' toolkit to a sample of central government bodies. The Council and SAC NLDF were not however selected for this review. The output from this work will form the basis of evidence for a national report on delivering efficiencies. This report is due for release in Autumn 2009.

Appendix 1: Audit Adjustments

We made a number of audit adjustments during the audit which impacted on the final position as follows:

Scottish Arts Council NDPB	£000
Net (outgoing) resources for the year per draft accounts	(1,326)
<i>Accounting entries per our adjustments:</i>	
Adjustment in respect of holiday pay accrual which is not required under UK GAAP	44
Adjustment of recharge of Creative Scotland Transition costs to NLDF	(25)
Adjustment of amortisation of negative goodwill to bring into line with estimated life of asset during the year	(6)
Reduction of creditors figure in relation to a grant for an organisation in liquidation	40
Adjustments following audit of CCA financial statements	(6)
Net (outgoing) resources per final accounts	(1,279)

Scottish Arts Council NLDF	£000
Net Decrease in Fund per draft accounts	(12,643)
<i>Accounting entries per our adjustments:</i>	
Reduction of market value of investment based on Interim Certificate	(46)
Recognition of hard commitment where agreement signed pre-year end	(383)
Being removal of Creative Scotland Transition Costs	25
Removal of holiday pay accrual from the accounts	21
Net decrease in Fund per final accounts	(13,026)



Scott-Moncrieff
(www.scott-moncrieff.com), one
of Scotland's leading independent
professional services firms,
provides industry-focused audit,
tax, business advisory and
corporate consulting services
for commercial, public, not-for-profit
and private clients.

© Scott-Moncrieff Chartered Accountants
2008. All rights reserved. "Scott-Moncrieff"
refers to Scott-Moncrieff Chartered
Accountants, a member of Moore Stephens
International Limited, a worldwide network
of independent firms.

Scott-Moncrieff Chartered Accountants is
registered to carry on audit work and
regulated for a range of investment
business activities by the Institute of
Chartered Accountants of Scotland.