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Historic Scotland

Annual audit report to Historic Scotland
and the Auditor General for Scotland
Year ended 31 March 2012

20 July 2012

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in connection with this
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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Historic Scotland and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

We also draw your attention to the following:

- management of Historic Scotland is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems;
- weaknesses or risks identified by us are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist; and
- communication by us of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve Historic Scotland management from its responsibility to address the issues raised and to maintain an adequate system of control.

We have completed our audit for 2011-12 and have issued unqualified audit opinions on the financial statements and the regularity of transactions included within the financial statements.

Historic Scotland is an agency of the Scottish Government operating under the Historic Environment (Amendment) (Scotland) Act 2011, the Historic Buildings and Ancient Monuments Act 1953, the Ancient Monuments and Archaeological Act 1979, the Planning (Listed Buildings and Conservation Areas) (Scotland) Act 1997, the Environmental Assessment (Scotland) Act 2005, and The Environmental Impact Assessment (Scotland) Regulations 1999. Historic Scotland's main objective is to protect, present and promote Scotland's historic environment, which includes ancient monuments and archaeological sites; historic buildings; parks and gardens; and design landscapes.

For 2011-12, the Cabinet Secretary agreed a set of 13 key performance indicators ("KPI's") with Historic Scotland. One of these was *"to increase our contribution to the Scottish Tourism Sector."* An element of this included a target to generate over £30 million from sites and other commercial activities. This target has been exceeded, with non-grant income of £32 million recorded in respect of 2011-12

Another financial linked KPI was *"to increase our support for local regeneration"*. This included investing at least £12 million in grant schemes. This target was also exceeded, with total grant expenditure of £14 million recorded in respect of 2011-12.

Historic Scotland also aimed *"to deliver 3% efficiencies, equating to £1.5 million against 2011-12 expenditure levels."* This target was achieved through close budget monitoring.

The net operating cost for the year is £43.058 million, compared with a £44.276 million drawn down in funding from the Scottish Government.

As a result of the efficiency target set by the Scottish Government, Historic Scotland undertook a formal review of expenditure as part of the budget setting process. Total expenditure for 2011-12 has reduced by £2.499 million compared with 2010-11.

The 2012-13 budget forecasts a £0.4 million deficit outturn; this is consistent with the outturn forecast in the original 2011-12 budget. The budget includes a £2.9 million increase in income from commercial and trading activities, along with a £3.2 million decrease in Scottish Government funding.

During 2011-12, Historic Scotland undertook a review of IT, with the aim of creating an information systems strategy which reflects business needs and ensures continued, appropriate investment in maintaining and developing technology.

Historic Scotland is currently in the process of initiating its new visitor admissions system ("VAS"), which has been partially rolled out across selected sites (Edinburgh and Stirling Castles). A pilot roll-out to a wider range of sites commenced in May 2012. The VAS incorporates both a ticketing and sales element and is a major IT project.

During 2011-12 we have performed follow-up work in relation to the Audit Scotland national studies. Our work has found that Historic Scotland's arrangements are generally strong.

A number of audit focus areas were identified as part of our planning process; no adjustments were necessary in respect of those areas. Other, mainly presentational, adjustments were made to the financial statements, none of which had an impact on Historic Scotland's outturn or financial position.



Executive summary Headlines

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practise* ("the Code"). This specifies a number of objectives for our audit.

We reported, in our audit strategy, our responsibilities in respect of the audit. Historic Scotland's responsibilities are set out in appendix one.

This report summarises our work for the year ended 31 March 2012.

We wish to record our appreciation of the co-operation and assistance extended to us by Historic Scotland staff during the course of our work.

Financial statements	
Draft financial statements were provided on 9 May 2012, in line with the agreed timetable. These were primarily complete and of an appropriate standard.	-
We have issued unqualified audit opinions on the 2011-12 financial statements and the regularity of transactions reflected in those financial statements.	
Use of resources	
Historic Scotland met its financial targets through effective financial planning and management throughout the year.	Page 4
Total comprehensive expenditure for 2011-12 was £43.058 million. The outturn (net of Scottish Government Funding) was a £0.045 million underspend.	Page 4
The 2012-13 budget indicates a forecast outturn of £0.4 million deficit.	Page 5
Performance management	
We have considered Historic Scotland's response to Audit Scotland's national report <i>Scotland's public finance's: responding to the challenge</i> and have prepared a short return to Audit Scotland. This confirmed that management have appropriately considered the report's findings and recommendations.	Page 12
We reviewed the process in which key performance indicators are calculated and recorded.	
Governance	
There have been no significant changes during 2011-12 and the governance statement confirms the existence of a comprehensive framework of internal control.	Page 13
Internal audit completed their plan and reported significant risk recommendations during the year.	Page 13
Arrangements to prevent and detect fraud are embedded in internal controls, in particular this includes the work of the compliance team in reviewing sites throughout the year.	Page 13

Historic Scotland reported total comprehensive expenditure of £43.058 million.

Financial targets

Historic Scotland had six efficiency targets in respect of 2011-12:

- delivering 3% (£1.5 million) of efficiencies on revenue expenditure levels;
- commencement of implementation of the Historic Scotland IT strategy;
- development of a Historic Scotland digital strategy;
- revision and publication of the Historic Scotland framework agreement;
- publication of the Historic Scotland corporate plan 2012-15; and
- working in partnership with the Scottish Government culture directorate and other bodies on showcasing sites as unique venues.

Historic Scotland reported that all of these targets have been met.

The target to achieve 3% efficiencies, equating to £1.5 million against 2011-12 expenditure levels, has been achieved through tight controls and budget monitoring. Total expenditure reduced by £2.499 million, as shown in the table opposite, compared with 2010-11 (3.2%).

One key performance measure has been reported as not being met, to achieve a high point of 123,000 members during 2011-12. The peak membership was 122,242. With this exception, the majority of targets have been met,

Result for the year

	2011-12 £'000	2010-11 £'000	Variance £'000
Income from commercial & tourism	31,473	27,794	3,679
Other income	962	1,863	(901)
Total income	32,435	29,657	(2778)
Policy & outreach	(5,122)	(4,867)	255
Heritage management	(2,179)	(2,201)	(22)
Investment	(13,891)	(16,499)	(2,601)
Conservation	(22,724)	(20,669)	2,055
Commercial & tourism	(20,459)	(23,491)	(3,032)
Central services	(9,980)	(9,136)	844
Depreciation & impairment	(1,637)	(1,628)	9
Total expenditure	(75,992)	(78,491)	(2,499)
Net gain/(loss) on revaluation of plant, property and equipment	499	(261)	(760)
Total comprehensive expenditure	(43,058)	(49,095)	(6,037)

Total comprehensive expenditure for 2011-12 was £43.058 million, a decrease of £6.037 million compared with the prior year.

Through increased focus on earned income, the target of £30 million was exceeded with total income (excluding Scottish Government grant funding) of £32.435 million.

As a result of the efficiency target requirements, Historic Scotland undertook a formal review of expenditure as part of the budget setting process.

Investment expenditure relates to grants awarded to third parties. The Historic Environment (Amendment) (Scotland) Act 2011 received Royal Assent on 23 February 2011 and amends a number of existing Acts, under which Historic Scotland awards grants to third parties. It provided greater powers in respect of Historic Scotland's ability to award grants.

Investments are monitored throughout the year and an underspend of £0.333 million was reported against the original budget. Eighty-three projects received grant investment during 2011-12, mainly in respect of building repair and the conservation area regeneration scheme.

Conservation expenditure increased by £2.055 million. During 2011-12, the conservation directorate was allocated an additional £3.177 million in respect of a number of projects and a full year overspend of £0.712 million against budget was reported to the senior management team.

Commercial and tourism expenditure reduced by £3.022 million compared with 2010-11. A significant underspend against budget arose, with a large element (£0.121 million) relating to an underspend on marketing.

Centre for Digital Documentation and Visualisation LLP ("CDDV")

In 2009-10, Historic Scotland entered into a Limited Liability Partnership with Glasgow School of Art to undertake the digital documentation of five Scottish World Heritage sites and five international heritage sites, as part of the 'Scottish Ten' project. This Limited Liability Partnership is set up as an arms length body of Historic Scotland with payments to the project for technical and expert services. Associated expenditure in 2011-12 was £210,770.

Performance against budget 2011-12

Budgets for 2011-12 were agreed by the senior management team. The original budget for 2011-12 included total expenditure of £74.664 million and forecast a £0.462 million overspend (net of Scottish Government funding and commercial income).

After budget adjustments occurring during 2011-12, a surplus budget of £0.286 million compared with a £0.045 million surplus outturn.

The 2011-12 budget forecasts a deficit outturn of £0.4 million.

Financial plans for 2012-13

The Historic Scotland budget for 2012-13 forecasts a £0.4 million deficit outturn; this is the consistent with the outturn forecast in the original 2011-12 budget. The 2012-13 budget includes a £2.9 million increase in income from commercial and trading activities, along with a £3.2 million decrease in Scottish Government funding. This change in funding sources is consistent with the corporate plan 2012-15.

The 2012-13 payroll budget is increased by £1.6 million. This is primarily due to the estimate for staff progression within salary scales during the year. It also includes an additional £0.4 million in respect of the estimated cost of staff salaries at Duff House, a property which Historic Scotland took over in April 2012, together with the cost of 20 new apprentices of £0.2 million.

There is a planned reduction in direct running costs based on further efficiency savings to be achieved in 2012-13.

Historic Scotland is planning to incur significant expenditure during 2012-13 in respect of the corporate network IT project, designed to support all of the organisation's core systems.

During 2012-13, Historic Scotland will also extend the pilot project in respect of the new visitor admissions system. This system incorporates a ticketing and retail element is already partially implemented in Edinburgh and Stirling Castles.

In summer 2012, Historic Scotland is planning to launch a 24 hour booking system. This system will allow third party groups to purchase tickets and will reduce the extent of the administration process currently associated with group ticketing.

	2012-13 Draft budget £'000	2011-12 Original budget £'000
Expenditure		
Gross income	33,260	30,346
Less: costs of goods sold	(4,150)	(4,045)
Scottish Government funding	42,200	45,400
Total income	75,915	74,274
Payroll costs	(28,700)	(27,134)
Direct running costs	(34,498)	(36,187)
Reserves	(11,353)	(13,117)
Total expenditure	(74,674)	(76,315)
Outturn planned	(400)	(400)



Financial statements Audit focus areas

Planning risks were identified around inventories, the new visitor admission system, non-government income, financial management, the revised organisational structure, organisational objectives and key performance indicators, grants payables, opening balances and the financial reporting framework.

No audit adjustments were required in respect of these areas and matters were concluded in a timely manner.

Issue	Key risk and implications	KPMG comment
Inventories	Retail stocks as at 31 March 2011 were £1.4 million. This significant balance is held across a number of sites and the distribution warehouse. Due to inconsistency in application of procedures and changes to the retail finance staff structure, there is an increased risk that the stock balance is misstated.	In accordance with International Standard on Auditing (UK and Ireland) 510: <i>Initial audit engagements – opening balances</i> , we liaised with management in relation to the robustness of stock records and reconciliations. We viewed the stock records and reconciliations for 2011-12 and these appear appropriate. We attended two year end stock counts; at Edinburgh Castle gift shop and the Newcraighall warehouse.
Visitor admissions	The phased roll out of the new visitor admission system ("VAS") which incorporates a ticketing element (Galaxy) and retail element (Counterpoint) was expected to start in 2012 and be completed in 2013. There was a risk of management focus being diverted to implementation of this new system and failure to correctly record transaction amounts or periods during the transition process.	During our interim review we developed an understanding of the Bleep system, which operated throughout 2011-12, but is being phased out. We performed sample testing in respect of controls over income. As part of the year end process, we met with management and discussed the new system, including observing a demonstration of the electronic point of sale system. We reviewed the training guidance that is being provided to staff and overall arrangements for the roll-out. We have satisfactorily completed testing in respect of cut-off to ensure transactions are reflected in the correct period.

Issue	Key risk and implications	KPMG comment
<p>Non-government income</p>	<p>Historic Scotland receives significant non-grant income of around £31million annually from memberships, staffed sites and retail stores - a large element of this is in cash. There is an increased risk of fraud and error given the volume of transactions and system complexity.</p> <p>Our market insights highlight additional risks:</p> <ul style="list-style-type: none"> ▪ depressed consumer spending and rising input costs squeezing margins; ▪ banks actively reviewing all retail exposures; and ▪ supply chain security and risk management increasingly important as pressure builds in the supply chain. 	<p>During our interim review we performed testing over income reconciliations between records maintained at staffed sites and the financial ledger and provided recommendations for improvement in controls.</p> <p>We accompanied Historic Scotland's audit and compliance team on a site visit to Abbey Sanctuary. We updated our understanding of existing processes and procedures and reviewed the role and activities undertaken by audit and compliance team.</p> <p>Non-government income increased by £2.4 million compared with 2010-11.</p>
<p>Financial management</p>	<p>Historic Scotland has a 3% efficiency target in respect of 2011-12 and the Government's spending review has resulted in a 22% reduction in grant income over the period 2012-13 to 2015-16.</p> <p>Management has implemented a number of efficiency measures and the commercial and enterprise departments have been tasked with identifying potential areas where additional income may be generated.</p>	<p>During our interim audit we reviewed the budget setting and monitoring arrangements. The annual budget setting process is undertaken between November and January. A monthly financial report, incorporating the budget, is prepared and presented to meetings of the strategic management team on a monthly basis. The finance report is also considered quarterly by the management board.</p> <p>We have considered the planned efficiencies and enterprise projects and considered any potential impact on the financial statements and disclosures. Historic Scotland exceeded its 3% efficiency target.</p> <p>We have reviewed the 2012-13 budget and the risks associated with non-achievement.</p>

Issue	Key risk and implications	KPMG comment
<p>Revised organisational structure</p>	<p>A revised organisational structure was introduced in April 2011. There was a risk that controls and processes failed to continue to operate as intended due to changes in staff responsibilities and structure.</p> <p>Management has begun a process of revising the chart of accounts and intended to propose revisions to the prior year comparative figures in the 2011-12 financial statements to ensure they reflect the revised structure.</p>	<p>We have reviewed the calculation and presentation of revised prior year comparatives in the financial statements arising following the change in organisational structure. These appear to be reasonable.</p>
<p>Organisational objectives and key performance indicators</p>	<p>As an executive agency of the Scottish Government, Historic Scotland performs its functions on behalf of the Scottish Ministers and its responsibilities to them are set out in the framework document.</p> <p>The framework document is currently being revised and is expected to be approved in 2012.</p> <p>The corporate plan 2008-2011 will be replaced by a new plan, due for publication in January 2012 which sets out how the organisation will achieve its objectives.</p> <p>In demonstrating achievement of the corporate plan, a number of key performance indicators are regularly monitored and reported.</p>	<p>We have reviewed the 2012-15 corporate plan and the 2012-15 corporate analytical strategy. We have gained an understanding of the process in which key performance indicators are amended.</p> <p>The framework document has been approved and updated in March 2012, detailing Historic Scotland's responsibilities.</p> <p>On a rolling basis, a sample of KPIs included in the annual report will be tested to ensure they are complete and accurate.</p> <p>We have reviewed the reported key performance indicators to ensure they are consistent with our understanding.</p>

Issue	Key risk and implications	KPMG comment
<p>Grants payable and legislation</p>	<p>Annual grant expenditure in respect of protection of external built heritage is around £15 million.</p> <p>The Historic Environment (Amendment) (Scotland) Act 2011 received Royal Assent on 23 February 2011 and amends the Historic Building and Ancient Monuments Act 1953, the Ancient Monuments and Archaeological Areas Act 1979 and the Planning (Listed Buildings and Conservation Areas) (Scotland) Act 1997.</p> <p>This provides greater powers under which Historic Scotland may award grants to third parties.</p> <p>The process of reviewing applications and awarding grants takes up to two years and the financial statements include significant commitments in this respect (2010-11 £18.9 million).</p>	<p>During our interim visit we gained an understanding of the grants applications and awards process and satisfactorily tested a sample of grant payments made during 2011-12 to ensure that there were in accordance with Historic Scotland's internal procedures.</p> <p>We have gained an understand of the implications of the Historic Environment (Amendment) (Scotland) Act 2011 on the organisation through our management inquiries.</p> <p>As part of final audit procedures, we tested a sample of grant awards and accruals to ensure they were appropriately authorised and reflected in the correct accounting period. The results were satisfactory.</p>
<p>Opening balances</p>	<p>International Standard on Auditing (UK and Ireland) 510: <i>Initial audit engagements – opening balances</i> requires us as auditors to obtain sufficient appropriate audit evidence about whether:</p> <ul style="list-style-type: none"> ▪ opening balances contain misstatements that materially affect the current period's financial statements; and ▪ appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes are appropriately accounted for, presented and disclosed in accordance with the applicable financial reporting framework. 	<p>We have undertaken a number of specific procedures to allow us to confirm a selection of opening balances per International Standard on Auditing (UK and Ireland) 510: <i>Initial audit engagements – opening balances</i> and have reviewed certain areas of the prior year audit files.</p>



Financial statements Audit focus areas (continued)

Issue	Key risk and implications	KPMG Comment
Financial reporting framework	Historic Scotland prepares financial statements with regard to HM Treasury's Financial Reporting Manual ("FReM"). The 2011-12 FReM has a number of amendments from the 2010-11 version which management will need to consider for any impact on the reporting requirements and financial statements.	<p>We liaised separately with management in advance of the year end audit visit and ensured changes to the FReM were identified and then appropriately reflected in the financial statements.</p> <p>Following completion of the National Audit Office checklist and consideration of Audit Scotland 's Notes for Guidance, we recommended some minor enhancements to financial statement disclosures.</p>



Other audit areas

Audit Scotland national reports

During 2011-12 we have performed follow-up work in relation to the Audit Scotland national report: *Role of Boards* as well as preparing returns on national studies.

Our work has found that Historic Scotland's arrangements are generally strong.

Audit area	Overview	Findings
Local response to national studies	Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. To ensure that added value is secured through the role of Audit Scotland and its appointed auditors, auditors will continue to ensure that audited bodies respond appropriately to reports from Audit Scotland's programme of national performance audits.	We have considered Historic Scotland's response to the national report <i>Scotland's public finance's: responding to the challenge</i> and have prepared a short return to Audit Scotland which confirms that management has appropriately considered the report's findings and recommendations.
Role of Boards	As part of its targeted approach to following-up a small number of performance audit reports each year, Audit Scotland has identified this report for follow-up in 2011-12. The aim of the follow-up work is to assess the progress that public bodies have made in seeking to improve the performance and operation of their boards. This will revolve around considering two key questions: <ul style="list-style-type: none">▪ how effective is the board and is it seeking to continuously improve its performance and ways of operating?▪ how is the board ensuring that it has the skills and expertise to enable it to perform effectively?	Historic Scotland has been undertaking a process which includes a review of governance arrangements and the role of the management board. The management board will be replaced with an advisory committee which comprises members of the senior management team and lay members. Internal audit have included a review of governance and risk management in their plan for 2011-12 which will include consideration of overall governance arrangements. We will consider Historic Scotland's actions from the Role of Boards assessment as part of finalising our work for 2011-12 and prepare a short return to Audit Scotland.

Audit area	Overview	Findings
<p>Best Value</p>	<p>Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now. Using the Scottish Executive's nine Best Value principles as a basis for audit activity, Audit Scotland previously selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). A series of toolkits covering financial, performance and governance processes are available for public sector organisations and auditor to use.</p> <p>There is no mandatory requirement for toolkits to be applied in central government bodies in 2011-12. However, these are available to be used by management to self assess arrangements where considered relevant. We will consider management's arrangements to achieve Best Value during our interim fieldwork and will report our findings from this to the audit and risk committee.</p>	<p>Management have not utilised the Best Value toolkits, but a number of aspects of arrangements to deliver Best Value are effectively embedded into policies and practices.</p> <p>Management continues to participate in the procurement capability assessment exercise and has improved performance over the past three years in respect of the overall score. The procurement policy has a number of stated objectives and performance indicators associated with delivering Best Value.</p> <p>As part of the process of implementing the revised corporate plan, existing key performance indicators are likely to be revised and management should consider using the Best Value toolkits as an aid to inform new policies, procedures or systems as they are developed. The overall approach to Best Value could be formalised.</p>
<p>Priorities and risks framework</p>	<p>We use Audit Scotland's <i>priorities and risk framework</i> to extend the scope of our audit to consider non-financial management arrangements, identifying best practice and areas for continuous development.</p>	<p>As part of the audit planning process we met with management to update our understanding of non-financial management arrangements and utilised the priorities and risks framework as appropriate.</p>



Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

<p>Corporate governance and internal control arrangements Standards of conduct and prevention and detection of corruption</p>	<p>Historic Scotland maintains an integrated governance framework to provide an appropriate structure for maintaining decision-making, accountability, control and behaviour.</p> <p>Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively. However, during our interim review, we noted that minor weaknesses in respect of payroll, IT and journals and our recommendations for improvement have been agreed with management.</p>
<p>Governance statement</p>	<p>The governance statement provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. It describes a number of sources of assurance for the accountable officer and identifies areas for improvements to be focussed on in the future.</p> <p>We have reviewed the governance statement and have confirmed that it is in line with guidance and reflects our understanding of Historic Scotland.</p>
<p>Internal audit</p>	<p>As set out in our audit plan and strategy, we have evaluated the work of internal audit and concluded that we can rely, where appropriate, on their work. The content of the internal audit plan is, in our view, comprehensive. We have considered internal audit reports during our audit and there were no significant issues that have arisen as a result of these reviews. The Scottish Government Internal Audit department have reported 'substantial assurance' over the internal controls within Historic Scotland.</p>
<p>Prevention and detection of fraud</p>	<p>Procedures and controls related to fraud are designed and implemented effectively. The audit and compliance team complete random checks at sites through out the year. There is a whistleblowing policy that can be found on the Historic Scotland intranet. Furthermore, the new visitor admission system is expected to enhance the ability to monitor and compare sites and detect and prevent fraud.</p> <p>No significant fraud or irregularity has been identified during the year.</p>

Appendix

Financial statements

Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for:

- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (eg, the Financial Reporting Manual or an Accounting Code of Practice);
- preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and
- preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.

Systems of internal control

Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.

Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions;
- developing and implementing strategies to prevent and detect fraud and other irregularity;
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and
- participating, when required, in data matching exercises carried out by Audit Scotland.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and should put proper arrangements in place for:

- implementing and monitoring compliance with appropriate guidance on standards of conduct and codes of conduct for members and officers;
- promoting appropriate values and standards; and
- developing, promoting and monitoring compliance with standing orders and financial instructions.

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and future use; and
- the impact of planned future policies and foreseeable developments on their financial position.

Best Value

Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.



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