

National Galleries of Scotland

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for National Galleries of Scotland
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 external audit of National Galleries of Scotland (NGS). The main elements of our work include:

- evaluation of the design and implementation of the key controls within the main accounting systems
- an audit of the Annual Report and Financial Statements, and provision of an independent auditor's report
- an audit opinion on regularity and other statutory information published within the Annual Report and Financial Statements including the Trustees' Annual Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements.

Respective responsibilities of the auditor and NGS

2. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NGS. Key responsibilities are summarised below.

Auditor responsibilities

3. Andrew Kerr, Audit Scotland has been appointed by the Auditor General for Scotland as external auditor of NGS, for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.

4. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

5. Auditors in the public sector give an independent opinion on the financial statements and other information within the Annual Report and Financial Statements. We also review and report on the arrangements within NGS to manage its performance, regularity, and use of resources. In doing this, we aim to support improvement and accountability.

NGS responsibilities

6. NGS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.
7. NGS is responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives.
8. The audit of the financial statements does not relieve management or the Trustees,' as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

9. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Committee or Board of Trustees have any such knowledge or concerns relating to the risk of fraud within NGS, we invite them to communicate this to us for our consideration.

Adding value

10. We aim to add value to NGS through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help NGS promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Annual Report and Financial Statements audit planning

Introduction

11. The Annual Report and Financial Statements are an essential part of demonstrating the National Galleries of Scotland's (NGS) stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. Materiality is an expression of the relative significance of a matter in the context of the Annual Report and Financial Statements. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the Annual Report and Financial Statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. The materiality levels for NGS and its group are set out in [exhibit 1](#).

Exhibit 1

2023/24 materiality levels for NGS and its group

Materiality	NGS and Group
<p>Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of net group assets for the year ended 31 March 2023 based on the latest audited financial statements for 2022/23. We have used net assets as the basis for calculating materiality as a primary function of National Galleries of Scotland is to operate as a custodian of public assets. This treatment is in line with ISA (UK) 320 (<i>Materiality in planning and performing an audit</i>) and Practice Note 10 (<i>Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>).</p>	£5.800 million
<p>Performance materiality: This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.</p>	£3.770 million
<p>Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have ensured this threshold is reasonable to allow appropriate testing of income and expenditure items.</p>	£0.055 million

Significant risks of material misstatement to the Annual Report and Financial Statements

15. Our risk assessment draws on our knowledge of NGS, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management and internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the Annual Report and Financial Statements. These risks have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of these risks, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over them.

Exhibit 2

2023/24 significant risks of material misstatement to the Annual Report and Financial Statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions at the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.
<p>2. Significant estimation and judgement: Revaluation of the Scottish National Gallery</p> <p>The Scottish National Gallery became operational in September 2023 and will be subject to revaluation in 2023/24.</p> <p>Risk: There is a significant degree of subjectivity with revaluations. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<ul style="list-style-type: none"> Revaluations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors. Detailed working papers retained in support of asset reviews. 	<ul style="list-style-type: none"> Evaluate the competence, capabilities, and objectivity of the professional valuer. Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. Test the reconciliation between the financial ledger and the asset register. Critically assess the adequacy of NGS' disclosure regarding the assumptions in relation to the valuation of the Scottish National Gallery

Other area of audit focus

18. As part of our assessment of audit risks, we have identified one other area where we consider there is also a risk of material misstatement to the Annual Report and Financial Statements, being the valuation of other land and buildings. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The other area of specific audit focus is:

- **Revaluation of other land and buildings:** NGS held land and buildings, excluding the Scottish National Gallery, with a Net Book Value of £117.734 million as at 31 March 2023, with land and buildings revaluated on a five-year rolling basis. Royal Institute of Chartered Surveyors (RICS) approved indexation factors for the valuation of NGS' land and buildings are applied in the years where a full revaluation is not undertaken. A full revaluation of these assets was undertaken in 2021/22. For 2023/24 the RICS indexation factors will be applied.

Consideration of the risks of fraud in the recognition of income and expenditure

20. As set out in ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), there is a presumed risk of fraud over the recognition of income. We have rebutted this risk for NGS as the main source of income is grant in aid funding from the Scottish Government. In addition, NGS' other income streams mainly comprise of high volume, low value items that are unlikely to result in a material misstatement due to fraud due to the limited incentive to manipulate the recognition of this income in the financial statements.

21. In line with Practice Note 10 (*Audit of financial statements and regularity of public sector bodies in the United Kingdom*), as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have rebutted this risk for NGS as the main expenditure streams, such as staff costs, can be readily forecast on a predictable pattern of spend. Based on our risk assessment to date we consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

Audit of the Trustees' Annual Report, Governance Statement and Remuneration and Staff Report

25. In addition to the appointed auditor's opinion of the financial statements, the appointed auditor is required to provide opinions as to whether the Trustees' Annual Report, Governance Statement and the Remuneration and Staff Report have been compiled in accordance with the appropriate regulations and frameworks and are consistent with the accounts.

26. To inform these opinions we will consider whether the disclosures within each statement comply with the applicable guidance and confirm that relevant information reflects the contents of the financial statements and other supporting documentation.

Group Consideration

27. As group auditors, we are required under ISA (UK) 600 (*Audits of group financial statements (including the work of component auditors)*) to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

28. NGS has a group which comprises NGS and one component entity, a subsidiary. The audit of the financial information of the subsidiary is performed by other auditors. Based on our discussion with management and assessment of the group, the only significant group component is NGS, which accounts for 97% of the consolidated total income and expenditure and 100% of the group's net assets. At this stage, it has been assessed that, other than NGS, there are no other significant group components. All non-significant components will be covered by an analytical review at the group level.

29. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the component on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

30. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

31. In summary, the four wider scope areas cover the following:

- **Financial management:** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium-term (two to five years) and longer-term (longer than five years). We will also consider progress with NGS' capital projects such as The Art Works.
- **Vision, leadership, and governance:** we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by National Galleries of Scotland (NGS). We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how NGS demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Significant wider scope risk

32. Our risk assessment has not identified any significant risks in respect of the above wider scope areas.

Financial sustainability

33. Whilst not a significant audit risk, the challenging financial environment in which NGS, along with other public sector bodies, is operating in, has been identified as an area of audit focus. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over future Scottish Government funding allocations, inflationary pressures, and the cost of implementing future pay settlements. Our Annual Audit Report will include

comment on NGS' 2023/24 financial outturn, 2024/25 budget, and its medium-term financial plan.

34. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector.

Duty of Best Value

35. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual \(SPFM\)](#) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NGS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

37. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

38. We will provide an independent auditor's report to National Galleries of Scotland (NGS), the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the Annual Report and Financial Statements. We will provide NGS and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

39. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by Audit Scotland's deadline of 31 October 2024. In determining this target reporting date, due regard is paid to meeting the statutory deadline for laying the accounts by 31 December 2024.

Exhibit 3

2023/24 audit outputs

Audit Output	Audit Scotland target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2024	7 March 2024
Independent Auditor's Report	31 October 2024	27 August 2024
Annual Audit Report	31 October 2024	27 August 2024



Audit timetable

40. To support an efficient audit, it is critical that the timetable for producing the Annual Report and Financial Statements for audit is achieved. We have included a proposed timetable for the audit at [exhibit 4](#) that has been discussed and agreed with management.

41. We intend to take a hybrid approach to the 2023/24 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

Exhibit 4

Proposed Annual Report and Financial Statements timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited Annual Report and Financial Statements with complete working papers package.	17 June 2024
Latest date for final clearance meeting with the Director of Finance, agreement of the audited and unsigned Annual Report and Financial Statements and the proposed Annual Audit Report.	2 August 2024
Issue of proposed Annual Audit Report, letter of management representation and proposed independent auditor's report to those charged with governance.	9 August 2024
Presentation of proposed Annual Audit Report to those charged with governance (Audit and Risk Committee).	27 August 2024
Approval of the National Galleries of Scotland Annual Report and Financial Statements by the Board of Trustees, independent auditor's report signed electronically following this approval and the final Annual Audit Report issued.	9 September 2024

Audit fee

42. In setting the fee for 2023/24 we have assumed that NGS has effective governance arrangements and will prepare comprehensive and accurate financial statements for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied. The audit fee for 2023/24 is £33,700 (£31,780 in 2022/23).

Other matters

Internal audit

43. It is the responsibility of National Galleries of Scotland (NGS) to establish adequate internal audit arrangements. NGS' internal audit function is provided by Henderson Loggie.

44. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

45. Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

46. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

47. The appointed auditor for National Galleries of Scotland is Andrew Kerr, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of National Galleries of Scotland.

Audit quality

48. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

49. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits and ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews.

50. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of

Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews. Progress with implementing improvement actions is regularly monitored by Audit Scotland's Quality and Ethics Committee

51. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

National Galleries of Scotland

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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