

National Galleries of Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the National Galleries of Scotland and the Auditor General for Scotland
September 2023

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Key messages

2022/23 Annual Report and Financial Statements

- 1 An unqualified independent auditor's report has been issued for the 2022/23 Annual Report and Financial Statements.
- 2 Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.
- 3 The Trustees' Annual Report, Governance Statements and Remuneration and Staff Report are consistent with the Financial Statements and properly prepared in accordance with applicable guidance.

Financial management

- 4 National Galleries of Scotland (NGS) operated within its budget in 2022/23.
- 5 The Scottish National Gallery project is nearing completion and is due to open in September 2023.
- 6 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 7 The Board of Trustees approved a draft balanced budget for 2023/24, subject to confirmation of pay award funding from the Scottish Government.
- 8 Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures. Work is ongoing to develop a resource plan that aligns to the organisations strategic and financial plans.

Vision, leadership and governance

- 9 NGS has a clear vision and strategy.
- 10 Effective governance and decision-making arrangements were in place during 2022/23 with business conducted in an open and transparent manner.

Use of resources to improve outcomes

- 11 NGS has arrangements in place to secure Best Value. A performance management framework is in place and performance levels continued to recover from the pandemic during 2022/23.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of National Galleries of Scotland (NGS). The scope of the audit was set out in an annual audit plan presented to the 9 March 2023 meeting of the Audit and Risk Committee (ARC). This Annual Audit Report comprises:

- significant matters arising from an audit of NGS's Annual Report and Financial Statements.
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Board of National Galleries of Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. NGS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an Annual Report and Financial Statements that are in accordance with the account's direction from the Scottish Ministers. NGS is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.

4. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

5. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of NGS from its responsibility to address the issues we raise and to maintain adequate systems of control.

Communication of fraud or suspected fraud

6. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this report 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. Should Trustees have any such knowledge or concerns relating to the risk of fraud within NGS, we invite them to communicate this to the appointed auditor for consideration prior to the Annual Report and Financial Statements being certified.

Auditor Independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £31,780 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We add value to NGS by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

9. The audit team would like to thank NGS staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

1. Audit of 2022/23 Annual Report and Financial Statements

NGS are required to prepare an Annual Report and Financial Statements. This is the principal means of accounting for the stewardship public funds.

Main judgements

An unqualified independent auditor's report has been issued for the 2022/23 Annual Report and Financial Statements.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The Trustees' Annual Report, Governance Statement and the Remuneration and Staff Report are consistent with the Financial Statements and properly prepared in accordance with applicable guidance.

Key risks arising from the audit of National Galleries of Scotland Annual Report and Financial Statements were presented to the Audit and Risk Committee on 9 March 2023 in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Board.

An unqualified independent auditor's report has been issued for the 2022/23 Annual Report and Financial Statements

10. The Board approved the Annual Report and Financial Statements for National Galleries of Scotland and its group for the year ended 31 March 2023 on 11 September 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements of NGS and its group give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- the expenditure and income in the Financial Statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

- the Trustees' Annual Report, Governance Statement and the audited part of the Remuneration and Staff Report were consistent with the Financial Statements and properly prepared in accordance with the relevant legislation and guidance.

11. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

The unaudited Annual Report and Financial Statements were received in line with the agreed audit timetable

12. The unaudited Annual Report and Financial Statements were received in line with our agreed audit timetable on 26 June 2023. The Annual Report and Financial Statements submitted for audit were of a good standard as were the supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Overall materiality was assessed as £5.800 million

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited Annual Report and Financial Statements and is summarised in [exhibit 1](#).

Exhibit 1

Materiality levels

Materiality level	Amount
<p>Overall 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. We have used gross 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>	£0.060 million

Source: Audit Scotland

We have no significant findings to report on the Annual Report and Financial Statements

15. Under ISA (UK) 260 (*Communication with Those Charged with Governance*), we communicate significant findings from the audit to the Board of Trustees, including our view about the qualitative aspects of NGS's accounting practices.

16. The Code of Audit Practice also requires all auditors to communicate key audit matters within the Annual Audit Report under ISA (UK) 701 (*Communicating key audit matters in the Independent Auditor's Report*). These are matters that we judged to be of most significance in our audit of the financial statements.

17. We have no issues to report from the audit.

18. The qualitative aspects of NGS's accounting practices, accounting policies, accounting estimates and accounts disclosures are satisfactory and appropriate.

19. In accordance with normal audit practice, a few presentational and disclosure amendments were discussed and agreed with management. The disclosure changes were satisfactory.

No misstatements were identified

20. It is our responsibility to request that all misstatements, other than those below our reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance.

21. There were no identified misstatements within the Financial Statements above our reporting threshold. In addition, we have no unadjusted misstatements to report.

Our audit work responded to the risk of material misstatement we identified in the Annual Report and Financial Statements

22. We have obtained audit assurances over the identified significant risk of material misstatement in the Annual Report and Financial Statements. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 2

Significant risk of material misstatement in the Annual Report and Financial Statements

Audit risk	Assurance procedure	Results and conclusions
<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. 	<p>Results: We assessed the design and implementation of controls over journal entry processing. No issues were noted.</p> <p>Journal adjustments were tested, and no indication of management override of controls were found.</p> <p>We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>We reviewed transactions during the year - no issues were identified with significant transactions outside the normal course of business.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable.</p> <p>Conclusion: No instances of management override of controls were identified.</p>

23. In addition, we identified “other area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The area of specific audit focus was:

- **Valuation of land and buildings:** We reviewed the RICS (Royal Institute of Chartered Surveyors) indexation factors and the application of these to land and buildings. The use of indexation resulted in a net increase of £6.177 million to land and buildings in 2022/23. Land and buildings have been properly accounted for in the financial year. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service index (‘BCIS’) and concluded that management’s assessment of the BCIS impact is reasonable.

24. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

The Trustees’ Annual Report complies with applicable guidance

25. The Trustees’ Annual Report is a narrative statement from the Trustees which the charity regulations (Charities SORP 2019) require to be included alongside the statement of accounts. Additionally, in line with the Accounts Direction, the Trustees’ Annual Report should meet the requirements for a Performance Report in line with the HM Treasury Government Financial Reporting Manual (FReM).

26. The report should provide a fair, balanced, and understandable review of the charity’s structure, legal purposes, objectives, activities, financial performance, and financial position.

27. Our review of the Trustees’ Annual Report found that it was of a good standard and covered all areas and disclosures required. We found it to be well presented and informative.

The Governance Statement provides an appropriate level of disclosure on the NGS’s governance arrangements during 2022/23

28. The FReM requires inclusion of a Governance Statement in an Annual Report and Financial Statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format.

29. National Galleries of Scotland Governance Statement complies with SPFM guidance and presents a reasonable explanation and assessment of its governance arrangements for the year under review.

The audited part of the Remuneration and Staff Report was consistent with the financial statements and has been prepared in accordance with applicable guidance

30. As reported in 2021/22, a change to the Government Financial Reporting Manual (FReM) included the requirement for Charitable Non-Departmental Public Bodies (NDPB) to disclose the content required of the Remuneration and Staff Report. This can be either within a separate report contained within the Annual Report or by expanding the existing staff cost note disclosure. Following discussions with management, for 2022/23 a separate Remuneration and Staff Report has been disclosed in the Annual Report and Financial Statements. This includes details of:

- the Galleries' remuneration policy.
- details of the remuneration of senior officers, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures as at 31 March 2023.
- the number and cost of exit packages approved during the financial year.
- a percentile pay disclosure and a range of other information on staff costs, numbers, and related activity.

31. We have no issues to report in relation to the information disclosed within the Remuneration and Staff Report in the NGS 2022/23 Annual Report and Financial Statements.

Our audit work addressed the wider dimension risk identified in our 2022/23 Annual Audit Plan

32. The [Code of Audit Practice 2021](#) requires auditors to consider the wider dimensions of public sector audit. Within our 2022/23 Annual Audit Plan, under this responsibility, we identified one wider dimension risk in relation to:

- **Financial Management:** The Scottish National Gallery (SNG) project

33. [Paragraphs 40 to 45](#) detail our audit findings in response to this risk.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

National Galleries of Scotland (NGS) operated within its budget in 2022/23.

The Scottish National Gallery project is nearing completion and is due to open in September 2023.

There are well-established budget monitoring and reporting processes in place and NGS has appropriate financial control arrangements.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

National Galleries of Scotland operated within its budget in 2022/23

34. The main financial objective for NGS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. NGS also must self-generate income and manage costs over the long-term to ensure its financial sustainability.

35. As a charitable Non-Departmental Public Body, NGS is primarily funded by the Scottish Government (SG) by way of grant-in-aid. For 2022/23, the single entity accounts for NGS show that it received £22.340 million from the SG. This comprised a resource grant of £16.750 million and capital of £5.590 million.

36. NGS has reported a breakeven outturn against its overall budget for 2022/23. The financial performance against fiscal resources is shown in [exhibit 3](#).

Exhibit 3

Performance against fiscal resource in 2022/23

Performance	Final budget £'million	Outturn £'million	Variance (under)/over £'million
Resource	16.750	16.750	-
Capital	5.590	5.590	-
Total	22.340	22.340	-

Source: National Galleries of Scotland Audited 2022/23 Annual Report and Financial Statements

37. NGS also recognise other income of £14.918 million in the group Statement of Financial Activities. This consists of donations, income from charitable activities and income from other trading activities, including £1.916 million from NGS' subsidiary, NGS Trading Company Limited. Total trading income in 2022/23 (£1.916 million) has continued to recover but is still short of pre-Covid levels (2018/19: £2.462 million).

38. A large element of NGS's resource expenditure (61%) consists of staff costs, which amounted to £15.086 million in 2022/23. Whilst NGS has continued its recovery from the pandemic, as evidenced by its improved income position, 2022/23 remained a challenging financial environment for it to operate in. The ongoing war in Ukraine has contributed to the rising cost of inflation which increased maintenance costs. The implementation of pay settlements was offset by managed resource gapping which resulted in staff costs remaining at 2021/22 levels.

39. Overall, NGS remains in satisfactory financial health. The group balance sheet shows what is owned and owed by NGS as at 31 March 2023. This currently shows net assets of £386.837 million, an increase of £18.348 million on the prior year. This increase is mainly attributable to increases to tangible assets following indexation (see [paragraph 23](#)) and the in-year capital additions works as part of the Scottish National Gallery and The Art Works projects (£10.176 million). NGS also continued to comply with its reserve strategy of maintaining at least £0.100 million available for use in its unrestricted General Fund, with £0.180 million being held as at 31 March 2023. NGS considers this to be a reasonable cushion given the financially challenging environment it is operating in and taking into consideration the government policy on reserves.

The Scottish National Gallery project is nearing completion and is due to open in September 2023

40. The Scottish National Gallery project aims to transform the current Scottish National Gallery to create a new suite of exhibition spaces to house the collection of Scottish art to raise its profile for visitors from around the world. The vision for the project has been driven by NGS's ambition to ensure that the

widest number of people can enjoy the artworks on offer. This a fundamental aspect of NGS's Strategic Plan.

41. As reported in prior years, the SNG project has faced a number of challenges resulting in delays to the completion of the project. The original timeline for construction completion was May 2020. The project is now nearing completion with an opening date set for September 2023. The original budget of £21.500 million was set in 2018. Since then, six formal budget revisions have taken place. Each of these were presented to the Board of Trustees for approval. The project revisions, and subsequent impact on the timescale and budget, arose due to several reasons. The project was complex in nature and issues such as concrete obstructions, asbestos removal, and requirements for additional water proofing, were identified during the build and had to be dealt with sensitively given this is a heritage site. Additionally, progress was impacted by the Covid-19 pandemic and the restrictions brought about by this.

42. There has been appropriate oversight and governance of the project. There is a steering group responsible for the project. The steering group presents regular updates to the Major Capital Programme Committee. These reports include a project specific strategic risk register along with expenditure and timetable updates. Trustees are also provided with information and ongoing assessments of the contractor's performance from NGS's external specialist partner. There have also been regular updates presented to the Board of Trustees and Audit and Risk Committee on the progress of the build.

43. The total cost incurred in respect of the SNG project to 31 March 2023 was £36.241 million, with £7.812 million relating to 2022/23 spend. This has correctly been accounted for as an asset under construction in the Annual Report and Financial Statements. A finalised budget of £38.620 million was agreed with the contractors and approved by the Board of Trustees in December 2022.

44. The project has been funded by the Scottish Government Capital grant, grants from the National Heritage Lottery Fund and other external funders including the National Galleries of Scotland Foundation. [Exhibit 4](#) shows details of the original and final project budgets.

Exhibit 4

SNG project – budget and funding

Funding source	Original budget £m	Final budget £m
Scottish Government	5.500	15.253
National Lottery Fund	4.940	6.890
Trusts and Foundations	5.000	7.140
Artwork loan fees and donations	6.102	9.337
Total	21.542	38.620

Source: The SNG progress report May 2023

45. The SNG site was officially handed back to NGS in July 2023. It is anticipated that this will be opened to the public in September 2023. As with all major capital projects, particularly those where challenges have been encountered, a post-project evaluation should be undertaken. This should be completed within a reasonable timescale. The evaluation should consider performance against cost, time and quality targets which will help to assess if the expected wider benefits which originally justified the investment have been delivered. The review, and any lessons learned from this, can be used to inform NGS's future capital projects.

The Art Works project is progressing, and subject to funding, is anticipated to be complete by 2025/26

46. The Art Works (TAW) is another major capital project in progress which will create a new, purpose-built facility to care for, research and share Scotland's art collection. Subject to funding, the project is planned for completion in 2025/26. The project is currently moving through the design stage. As at 31 March 2023 TAW had a project spend £6.638 million. The 2023/24 budget includes £1.850 million for TAW. There is a commitment to support the delivery of the project and discussions are ongoing between the SG and NGS over funding for 2024/25 onwards.

2022/23 has seen a recovery in the trading of NGS' wholly owned subsidiary

47. NGS has a wholly owned subsidiary, National Galleries of Scotland Trading Company Limited (NGS Trading) which promotes and develops NGS' commercial activities such as catering services, retail, publishing books and developing intellectual property. NGS Trading donates its taxable annual profits available for distribution to NGS, in accordance with the Government's Gift Aid legislation, and the company's financial results are consolidated into the NGS Annual Report and Financial Statements.

48. During 2022/23 NGS Trading has seen a significant recovery from the pandemic with visitor numbers returning close to the levels prior to the pandemic. For 2022/23 NGS Trading made a profit of £0.111 million (2021/22: profit of £0.069 million) which highlighting its progress in recovering from the impacts of the pandemic.

49. However, the trading activities depend on the continued co-operation of NGS. NGS Trustees provided assurances that they will continue to provide financial support to NGS Trading and will not seek the repayment of the intra-company loan unless NGS Trading has sufficient funds to meet all its liabilities.

50. As a result of the improved position of NGS Trading its directors agreed to repay £0.200 million of the £1.400 million inter-company loan in March 2023. The balance outstanding now stands at £1.200 million.

A donation was made to, and grants received from, the National Galleries of Scotland Foundation in 2022/23

51. The National Galleries of Scotland Foundation (the Foundation) was set up in 2012 to carry out fundraising activity for NGS and to support its objectives. The Foundation is independent of NGS and allocates its funds after reviewing applications and business cases. We are content that, in 2022/23, NGS did not exercise control over the Foundation. In 2022/23, NGS received £4.998 million in grants (2021/22: £1.500 million) from the Foundation for various projects and contributed £0.125 million to it. These transactions have been correctly recorded in the Financial Statements.

There are well-established budget monitoring and reporting processes in place

52. NGS continues to have strong financial management processes in place which are sufficiently robust to manage financial activity and capture and address any challenges to the achievement of financial targets. This is supported by an experienced finance team.

53. The Audit and Risk Committee (ARC) and Board regularly review progress against budget throughout the year, with financial reports included on the agenda of each meeting of the ARC. The budget updates provide a good level of information on the reasons for variances, where savings have been made and the challenges facing NGS for the rest of the year. The information is provided at timely intervals throughout the year which enables scrutiny from

Trustees. Additionally, the level of reserves held by the charity are subject to regular review by Trustees.

54. We concluded that NGS has effective budgetary and financial management processes in place that allow Trustees to carry out effective scrutiny of its finances.

NGS has appropriate financial control arrangements in place

55. From our review of the design and implementation of systems of internal control relevant to our audit approach (including those relating to IT), we did not identify any internal control weaknesses. No weaknesses were identified which could affect NGS' ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the accounts.

56. The key controls within NGS main financial systems were designed and implemented appropriately. As such, we are satisfied that the risk of material misstatement to its annual accounts is low.

Internal audit reported that NGS had adequate and effective risk management, control and governance arrangements in place during 2022/23. Proper arrangements are in place to promote and secure value for money.

57. NGS' internal audit function is carried out by Henderson Loggie. The internal audit service, in any organisation, is an important element of internal control. It provides Trustees and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud.

58. We considered internal audit's annual report, presented to the September 2023 Audit and Risk Committee, as part of our review of the Governance Statement included within the 2022/23 Annual Report and Financial Statements. This disclosed internal audit's opinion that NGS had adequate and effective arrangements for risk management, control, and governance in place during 2022/23. The opinion also states that proper arrangements are in place to promote and secure value for money.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate.

59. NGS' Board of Trustees is responsible for ensuring that appropriate standards of corporate governance and personal conduct are maintained in respect of Trustees and staff.

60. NGS management is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The arrangements in place at NGS include:

- code of conduct policy
- fraud policy
- conflicts of interest policy

- whistleblowing policy
- system of internal controls in place which includes segregation of duties and multiple levels of authorisation & approval.

61. NGS continues to participate in the National Fraud Initiative (NFI), a counter-fraud exercise coordinated by Audit Scotland that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NGS have undertaken an initial high-level review of matches and have not identified any of particular concern. These will be fully reviewed and followed up the end of September.

62. We have concluded that adequate arrangements are in place for the prevention and detection of fraud and other irregularities. In addition, our testing of expenditure and income during the audit did not highlight any issues with the regularity of NGS transactions, or any instances of business decisions being taken that did not appear to reflect value for money. We are not aware of any specific issues that we need to bring to your attention.

NGS has adequate arrangements in place to manage cyber security risks

63. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

64. NGS holds the Cyber Essentials certification. This provides assurance that the arrangements within NGS to manage cyber security risks are adequate. It has committed to the annual re-accreditation of this. NGS is looking to build on this level of assurance through the Information Assurance Small Medium Enterprises (IASME) Cyber Assurance accreditation. This provides assurance that an organisation has delivered a broad range of important cyber security, privacy, records, and data protection measures across all digital and non-digital information assets. A programme of work has been identified that will be progressed over the next three-years.

65. In January 2023 NGS undertook the National Cyber Security Centre (NCSC) Exercise in a Box. This exercise helps ascertain the organisational understanding of dealing with a potential cyber threat. NGS considered this to be a useful awareness raising exercise, with opportunities for the further strengthening of its cyber resilience identified.

66. Cyber security is included within the NGS strategic risk register. The risk register is reported to the Audit and Risk Committee each quarter allowing for regular review and updates. The register also identifies the need for investment in IT systems to help mitigate against cyber risks.

67. Internal audit recently undertook a review of ICT Business Continuity and Disaster Recovery Planning in place at NGS and concluded that there are appropriate backup, continuity, and disaster recovery arrangements in place within the IT department, and other departments where necessary. NGS are in

the process of replacing its Business Continuity Plan and Disaster Recovery Plan with a new updated and focused Business Resilience Plan.

68. Given the nature and sophistication of cyber-attacks no organisation can be fully insulated but NGS has adequate arrangements in place to manage cyber security risks.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The Board of Trustees approved a draft balanced budget for 2023/24, subject to confirmation of pay award funding from the Scottish Government.

Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures. Work is ongoing to develop a resource plan that aligns to the organisations strategic and financial plans.

The Board of Trustees approved a draft balanced budget for 2023/24, subject to confirmation of pay award funding from the Scottish Government

69. The 2023/24 draft budget was approved by the Board of Trustees in March 2023. The overall resource budget of £22.296 million included a 10% increase in Grant-in-Aid (GIA). However, this uplift does not include cover for the 2023/24 pay policy.

70. Alongside the uplift to GIA, self-generated income is forecast to increase by 25% on the prior year, through a combination of targeted recruitment, uplifts in pricing as the Scottish National Gallery (SNG) re-opens, and a renewed approach of the patron's sponsorship programme. Whilst full recovery of visitor numbers is not forecast until 2024/25, an extensive exhibition programme is planned for 2023/24 and as such, budgeted exhibition income has also increased by 57% compared to the prior year budget.

71. The draft budget provides a good level of detail on the assumptions used. These appear reasonable and are based on the latest and best available information to management. The Scottish Government pay policy and its impact on NGS continues to be the greatest area of uncertainty. Alongside this, NGS is forecast to have an increase of 16 core posts in 2023/24 in respect of additional visitor services and freelance staff for exhibitions. The Galleries' effective budget monitoring arrangements, together with its ongoing dialogue with the SG around the funding for the 2023/24 pay award, will be key in ensuring it delivers its strategic priorities within its allocated budget in 2023/24.

72. We recognise that NGS is operating in a challenging financial environment, with high inflation, the cost-of-living crisis and national pay awards all representing challenges to its budget. This is against the backdrop of relatively flat, real terms resource funding contributions to the cultural collections over the

past several years, including NGS, as [reported](#) by the Scottish Parliament Information Centre (SPICe) in June 2023.

73. NGS has good financial management arrangements in place and has a history of operating within its budget. We are satisfied from a review of the 2023/24 budget, consideration of the actual position in 2022/23, and the assumption of continued provision of services set out in the FReM and Practice Note 10, that it is appropriate to prepare the Financial Statements on a going concern basis, and that no material uncertainty on going concern exists. Management have made appropriate disclosures relating to going concern in the Annual Report and Financial Statements.

Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures. Work is ongoing to develop a resource plan that aligns to the organisations strategic and financial plans

74. In May 2022, the Scottish Government (SG) published its first Resource Spending Review (RSR) since 2011. The RSR set out indicative spending plans for five years up to 2026/27. High-level spending plans were outlined for each government portfolio and included several assumptions and expectations such as the delivery of three per cent efficiency savings from all public bodies, and maintaining public sector pay costs at around 2022/23 levels. Since the publication, the financial pressures facing the SG, and the wider public sector, have intensified as tougher economic conditions such as higher inflation and increased interest rates have emerged in recent months. Added to this, the SG has intimated its intention for public sector reform, with further details on this expected later in 2023.

75. Set in this context, as part of the 2023/24 budget paper, management outlined high level forecasts to 2027/28. Despite forecasts increases in self-generated income with the opening of the SNG and The Art Works (TAW) projects, the forecasts highlight a challenging financial position over the medium-term, in part due to the rising cost of inflation and the impact this has on utilities and maintenance costs. There also remains uncertainty over future pay settlements. As further information is made available from the SG, NGS will have to assess the impact of the RSR and reform announcements on its forecasts.

76. Planning for the medium to longer-term term is difficult, but necessary, to manage the levels of uncertainty and volatility facing NGS's budgets. The development of these forecast will bring into focus the identified challenges together with opportunities to address them.

77. Internal audit undertook a financial resilience review in 2022/23. The review provided an overall "good" level of assurance and identified several strengths with NGS's financial planning. The included the alignment between the key priorities and goals in the Strategic Plan 2022-27 and the budgets which will be available to drive the delivery of the plan.

78. Staff costs comprise the greater part of NGS' annual expenditure (61% of total expenditure in 2022/23). This should dictate that NGS adopts a strategic

approach to workforce and succession planning. This should be closely related to its Strategic Plan and budgets.

79. NGS has recognised the need for a longer-term strategic approach to its workforce and are currently undertaking a skills and capacity planning exercise to develop a 3-year resource plan. This is progressing well and will be finalised later in the year.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

NGS has a clear vision and strategy.

Effective governance and decision-making arrangements were in place during 2022/23.

NGS conducts its business in an open and transparent manner.

NGS has a clear vision and strategy

80. The National Heritage Act (Scotland) 1985 confirms that NGS' Board of Trustees has responsibility to:

- care for, preserve and add to the objects in their collections.
- secure that the objects are exhibited to the public.
- secure that the objects are available to persons seeking to inspect them in connection with study or research.
- generally promote the public's enjoyment and understanding of the Fine Arts both by means of the Board's collections and by such other means as they consider appropriate.

81. To support the Board in achieving these responsibilities, NGS has established a clear strategic vision as set out in its Strategic Plan 2022-27. The specific strategic aims over this period are:

- **Increased participation:**
 - We want to welcome and include everyone, reaching more people and more diverse groups.
 - We want to open up conversations with our audiences to discover new ways to experience and explore the collection together.

- **Greater impact:**

- We want to make sure our work is both world-class and relevant.
- We will make an active contribution to some of the key challenges facing society, including improving health and wellbeing, combatting inequality, and addressing the climate and ecological emergency.

- **Investment in our future:**

- We will invest to make the most of our people and their talents, knowledge and skills, our collection, and buildings. We will take a long-term view about investing in all these areas, making sure everyone has a role to play.
- We will create more secure and varied sources of income so that we become more self-sufficient, financially.

82. The plan also identifies six strategic priorities being:

- Our Public Offer
- Equalities, Diversity & Inclusion
- Environmental Response
- Health & Wellbeing
- Contributing to Recovery: Continuity & Change
- Income Generation & Managing the Cost Base

83. The delivery of the Strategic Plan will be monitored through a suite of key performance indicators (KPIs).

84. In addition to setting out the strategic aims for NGS, the plan provides a commitment to the Scottish Government's National Performance Framework, setting out how NGS will contribute to this.

85. To help progress the priorities of the strategic plan, each year a business plan is produced, tying together the key aims, priorities, KPIs and related risks. The 2023/24 business plan was considered by the Audit and Risk Committee in May 2023. The 2023/24 business plan will complement the Strategic Plan for 2023-28, which is due to be produced in the coming months. This will build upon the current Strategic Plan, offering an update on NGS' key priorities and goals.

86. The Strategic Plan acknowledges a number of risks to the successful achievement of the strategic aims and priorities, with the continued recovery from the pandemic, and its impact on visitor numbers and income, together with inflation highlighted. These are key areas of focus within NGS' financial planning evidencing a joined-up approach that ensures NGS' resource is prioritised to meet its strategic aims.

Effective governance and decision-making arrangements were in place during 2022/23

87. A Framework Document is in place between the Scottish Government and NGS. It sets out the broad framework within which NGS will operate and defines key roles and responsibilities which underpin the relationship between it and the Scottish Government. The Framework Document was subject to review and update in 2022/23 and was approved by the Board in June 2023.

88. The Board of Trustees is responsible for the overall governance of the NGS. It is responsible for ensuring the governance framework is operating as intended, together with the monitoring of the adequacy and effectiveness of these arrangements. NGS' governance arrangements have been set out in the Governance Statement in its Annual Report and Financial Statements. We are of the view that governance arrangements remained effective in 2022/23.

89. There are eleven Trustees plus a Chair on the Board. All members are appointed by the Scottish Ministers. In 2022/23, the term of two Trustees ended, and two new Trustees were appointed. A full induction process was undertaken for the new members to familiarise them with their roles and responsibilities.

90. The Board provides leadership, direction, support, and guidance to ensure NGS delivers and is committed to delivering its functions effectively and efficiently and in accordance with the aims, policies, and priorities of the Scottish Ministers. The Board is supported in its governance role by several committees, including an Audit and Risk Committee (ARC).

91. From our attendance at ARC meetings, we note that committee papers are well prepared in advance of each meeting, and enough time is made available at each meeting to allow appropriate discussion of each item on the agenda. Committee members are well-prepared and provide effective scrutiny.

92. Responsibility for delivering the Strategic Plan and the operational management of NGS is delegated to the Director-General, supported by his leadership team. The Director-General is also Accountable Officer for the use of public resources. The current Director-General is due to step down in February 2024 and a recruitment process, led by the Board Chair and a committee of Trustees, is underway.

NGS conducts its business in an open and transparent manner

93. There is an increasing focus on how public money is used and what is achieved. Transparency means that the public have access to understandable, relevant, and timely information about how NGS is taking decisions and how it is using resources such as money, people, and assets.

94. There is evidence from several sources which demonstrate NGS' commitment to openness and transparency:

- NGS makes its Annual Report and Financial Statements available on its website. These include a Trustees Annual Report which adequately explains NGS' financial performance and use of resources for the year.

- The NGS website provides the public with access to a wide range of corporate information including details of its strategy, performance information, and equality and diversity reporting.
- On its website, it publishes, in an accessible and transparent way, an annual review that evidences its use of resource and key activities over the past year.

95. In line with our comments last year, consideration has also been given to publishing papers along with the Board minutes, however, NGS has decided to continue to publish minutes of its Board meetings only. We recommend that this position is regularly reviewed as it is out of line with other public sector bodies.

5. Use of resources to improve outcomes

NGS need to make best use of its resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NGS has arrangements in place to secure Best Value.

A performance management framework is in place. Performance levels continued to recover from the pandemic during 2022/23.

The Strategic Plan 2022-27 recognises NGS' role in combatting the climate emergency. NGS has an Environmental Response Plan that sets out the aims and ambitions to achieve the targets set by the Scottish Government.

NGS has arrangements in place to secure Best Value

96. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

97. The duty of Best Value in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance,
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.

98. We have not undertaken any specific Best Value work in 2022/23. However, based on our findings in this report, we consider that NGS has arrangements in place to secure Best Value. This is evidenced through:

- a clear Strategic Plan and performance reporting, including its framework for continuous improvement.
- established governance and decision-making framework.

- recognition that strategic priorities must be delivered within the financial and workforce resources available.

A performance management framework is in place. Performance levels continued to recover from the pandemic during 2022/23

99. NGS's performance is monitored by the Board of Trustees and the Audit and Risk Committee (ARC) against several performance targets which support the delivery of the priorities in its Strategic Plan 2022-27. The responsibility for the detailed review and scrutiny of operational and financial performance lies with the Board which meets quarterly.

100. At each meeting of the Board, an update on performance against the key performance indicators (KPIs) is presented along with detailed information for each of these. Responsibility for the detailed review and scrutiny of performance lies with the ARC. At each meeting of the ARC, management present a financial and non-financial performance report. Performance is reported using a traffic light system covering NGS's key indicators. Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

101. There are thirteen KPIs reported within the 2022/23 Annual Report and Financial Statements. Management advised that as 2022/23 continued to be a recovery year following the Covid-19 pandemic, targets were not assigned to all these indicators. [Exhibit 5](#) shows that performance improved across seven of the nine indicators where a target had been set for 2022/23. For the two where the target had not been met in 2022/23, they both exceeded the 2021/22 level, indicating a level of improvement from the prior year.

102. The 2023/24 business plan sets targets for each of the thirteen KPIs that are linked to the Strategic Plan. These will be monitored and reported on during 2023/24.

103. NGS has a clear performance management framework in place aligned to its Strategic Plan. Its performance is recovering following the pandemic and is subject to regular review by Trustees.

Exhibit 5

Key performance indicators

	2021/22 Results	2022/23 Target	2022/23 Results
Number of actual visits to all gallery sites	780,275	1,775, 714	● 1,958,515
Website sessions	2,812,855	No target	2,576,771
Digitisation of the collection	6,301	19,200	● 11,066
Visitor satisfaction	91%	90%	● 90%
Visitor net promoter score	No comparator	70%	● 65.6%
Engagement via social media	3.5%	No target	3.3%
Percentage reduction on carbon emissions	63.58%	60%	● 65.10%
Percentage of storage/gallery spaces providing minimum standard environmental conditions for collections	52%	100% (by 2025)	52%
Income per visit	No comparator	No target	£2.45
Collection review	No comparator	1,252	● 2,448
Trading company profit/loss	£69,000	£8,000	● £111,000
Membership income	£317,372	£350,000	● £323,763
Donations per visit	6p	6p	● 6p

Source: NGS Annual Report and Financial Statements 2022/23

The Strategic Plan 2022-27 recognises NGS's role in combatting the climate emergency. NGS has an Environmental Response Plan that sets out the aims and ambitions to achieve the targets set by the Scottish Government

104. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

105. We have considered how climate change and sustainability is factored into the Galleries' strategic priorities, its action plan, and targets for reducing its emissions, and the monitoring and reporting arrangements of these.

106. The climate emergency is included as part of NGS's "Greater impact" strategic aim in its Strategic Plan 2022-27: *We will make an active contribution to... addressing the climate and ecological emergency.* To help it achieve this, NGS has in place a new Environmental Response Plan 2022-25 that is published on its [website](#). This outlines its role and key tasks for helping it transition to be part of a low carbon society. A Steering Group has been established to drive projects in the plan and updates are provided to the Board of Trustees.

107. NGS has made good progress in reducing its carbon footprint, with emissions reduced by over 65 per cent ([exhibit 5](#)) since 2008/09. The response plan recognises that to become carbon neutral NGS will require additional investment to optimise and replace equipment. It has recently engaged with a third-party to create a detailed plan for its estate and this plan will form the basis of future funding requests with the aim of delivering on this plan over a 10-year period.

108. NGS is transparent in its reporting against its responsibilities under the Climate Change Act (Scotland) 2009, and has an area on its [website](#) regarding sustainability. It also discloses its work and progress on sustainability in its Annual Report and Financial Statements.

109. NGS is required to submit an annual report to the Sustainable Scotland Network detailing compliance with the climate change duties imposed on it by the Climate Change (Emissions Reductions Targets) (Scotland) Act 2019 and the Climate Change (Scotland) Amendment Order 2020. The information returned by NGS is compiled into a national analysis report, published annually on the [Sustainable Scotland Network website](#). This includes data for all public sector organisations and supersedes the previous requirement for public bodies to publish individual sustainability reports.

Appendix 1. Action plan 2022/23

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Remuneration and Staff Costs Disclosures</p> <p>During the 2021/22 audit it was identified that there were changes to the Government Financial Reporting Manual (FReM) included the requirement for Non-Departmental Public Bodies (NDPB) to disclose the content required of the Remuneration and Staff Report, either within a separate report contained within the financial statements or by expanding the existing staff cost note disclosure. Management have made additional disclosure within the 2021/22 financial statements, but these are not currently fully complying with the FReM.</p>	<p>A review should be carried out of the Remuneration and Staff Costs disclosures with the aim of being fully compliant with the FReM in the 2022/23 financial statements.</p>	<p>Complete</p> <p>A Remuneration and Staff Report has now been added to the Annual Report and Financial Statements.</p> <p>We have no issues to report in relation to the information disclosed within the Remuneration and Staff Report in the NGS 2022/23 Annual Report and Financial Statements.</p> <p>See paragraphs 30 to 31.</p>
<p>b/f 2. SNG Project</p> <p>Further delays were experienced with the project in 2021/22. The forecast budget and timeline for the completion of the project was reviewed and a revised project budget was approved by the Board of Trustees in March 2022. The current forecast costs for the completion of the SNG project per the revised budget</p>	<p>Management and the Board should continue to closely monitor the SNG project to ensure that additional funding is secured, and the project is completed within the revised budget and timescale.</p>	<p>Ongoing</p> <p>The SNG site was officially handed back to NGS in July 2023. It is anticipated that this will be opened to the public of late Summer 2023.</p> <p>Regular project updates were provided to the Board, Audit and Risk Committee and Major Capital Programme Committee in respect of the SNG project.</p>

Issue/risk	Recommendation	Agreed management action/timing
is £37.500 million, with the opening of the full site to the public being planned for Summer 2023.		No issues were identified from our detailed testing of expenditure capitalised within assets under construction relating to the SNG project. See paragraphs 40 to 45.

National Galleries of Scotland

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