

# National Museums Scotland

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for National Museums Scotland

February 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Reporting arrangements	7
Audit fee	8
Responsibilities	8
<b>Audit scope and timing</b>	<b>9</b>
Financial statements	9
Audit dimensions	11
Independence and objectivity	13
Quality control	13

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# Risks and planned work

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**1.** This annual audit plan contains an overview of the planned scope and timing of our audit of National Museums Scotland ("NMS") and is carried out in accordance with International Standards on Auditing ("ISAs"), the [Code of Audit Practice](#), and any other relevant guidance. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

**2.** NMS is a Scottish Charity and a Non Departmental Public Body ("NDPB"). As such, it is required to prepare an annual report and accounts in accordance with the Charities' Statement of Recommended Practice ("Charities SORP"), the Financial Reporting Manual ("FReM") and relevant legislation. We will assess and report on NMS's compliance with these requirements in our independent auditor's report and annual audit report.

## Audit risks

**3.** Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for NMS. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Due to the nature of this risk, Audit Scotland does not accept assurances from management.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NMS receives a significant amount of income in addition to Scottish Government funding (2015/16 - £12.242m). The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud. The <i>Code of Audit Practice</i> and <i>Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom</i> expands the ISA assumption to require consideration of a risk of fraud over aspects of expenditure for public sector bodies.</p>	<p>Effective budget monitoring by management.</p> <p>Fraud Policy and Whistleblowing Policy in place.</p> <p>Participation in National Fraud Initiative.</p>	<p>Detailed substantive testing of income and expenditure transactions, focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative matches.</p>
<p><b>3 Estimation and judgements - Property Indexation Revaluation</b></p> <p>NMS's accounting policy states that land and buildings are revalued every five years, with an annual revaluation of buildings using indices.</p> <p>The previous auditors, PWC, identified that the 2015/16 indexation gain was overstated by £3.08m, with a corresponding overstatement of the revaluation reserve. This was due to incorrect indices being applied by management.</p> <p>This poses an increased risk of material misstatement in the valuation of buildings.</p>	<p>We are seeking to ensure that a shared understanding of how indexation should be applied with our external auditors prior to the completion of draft accounts. This will ensure that there is a sound procedure in place for the indexation revaluation and that this is reflected accurately in the financial statements.</p>	<p>We will assess management's proposed indices in advance of the financial statements' audit.</p> <p>Focused substantive testing of property indexation adjustments.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>4 Group Accounts</b></p> <p>NMS prepares group accounts that include its subsidiary company, NMS Enterprises Limited. However, NMS doesn't consolidate its charitable trust, National Museums Scotland Charitable Trust ("the Charitable Trust").</p> <p>PWC agreed with management's assessment that no consolidation of the Charitable Trust was required, as NMS didn't control the Charitable Trust.</p> <p>In this first year of our audit appointment, we will need to assure ourselves this approach is correct.</p>	<p>The Charitable Trust is independent of NMS. There is a separate Board and no more than two Trustees are nominated by NMS. It has the right to refuse to give funding to NMS and the ability to fund other organisations or individuals.</p>	<p>We will review the Trust Deed that established the Charitable Trust and perform audit testing to understand the relationship between the bodies. We will test grants received by NMS from the Charitable Trust</p> <p>We will liaise with the Charitable Trust and its auditors, as appropriate.</p>
<b>Wider dimension risks</b>		
<p><b>5 Governance and Accountability - Framework Document</b></p> <p>NMS operates under a 1993 Financial Memorandum with the Scottish Government. This agreement is now 24 years old and no longer reflects the reality of the arrangement between the Scottish Government and NMS. Management has been in discussions with the Scottish Government over the past several years to agree the introduction of a new Framework Document to replace the 1993 Financial Memorandum.</p> <p>The existing governance framework is unclear. We note, for example, that there are differences in the authority delegated to the Accountable Officer between the 1993 Financial Memorandum and the draft Framework Document.</p>	<p>We are aware that the Scottish Government is seeking to implement a Framework Document, and that we have long-established governance arrangements which work well, being based upon our founding legislation and Company Law.</p>	<p>We will monitor progress in the agreement of a Framework Document between NMS and the Scottish Government.</p> <p>We will continue to assess what impact the lack of an agreed Framework Document has on NMS's governance and accountability arrangements.</p>
<p><b>6 Governance and Accountability - Risk Management Policy</b></p> <p>NMS has a risk register that is prepared by the Executive Team and reviewed by the Audit &amp; Risk Committee.</p> <p>However, NMS does not have a documented risk management policy. The Scottish Public Finance Manual ("SPFM") Risk Management chapter requires</p>	<p>The Audit &amp; Risk Committee owns the risk register, consider it and its ongoing relevance and suitability at each meeting. Executive Team review and comment to the Committee twice a year.</p>	<p>We will attend Audit &amp; Risk Committees and assess the effectiveness of risk management arrangements.</p> <p>We will continue to assess the effectiveness of NMS's risk management arrangements and compliance with the SPFM.</p>

Audit Risk	Management assurance	Planned audit work
<p>the NMS Board of Trustees to establish a risk profile (para 10). The chosen profile will affect NMS's approach to risk. The SPFM further requires NMS to establish a clearly structured process (para 14) and review the process annually to ensure it is appropriate and effective.</p>		
<p><b>7 Other Policies and Procedures</b></p> <p>As part of our audit work, we are required to review NMS's key policies and procedures.</p> <p>We found that the Fraud Policy and the ICT Direction 2009-2015 are both out of date.</p> <p>Policies and procedures should be reviewed regularly (ideally annually) to ensure they are effective and appropriate.</p> <p>We have yet to review some policies. We will review the following policies and procedures during our interim visit in March 2017:</p> <ul style="list-style-type: none"> <li>• Staff Code of Conduct</li> <li>• Disaster Recovery Policy</li> </ul>	<p>These are areas for improvement already identified by the Audit &amp; Risk Committee via their programme of internal audits.</p> <p>A revised ICT Direction and Fraud Policy are planned for 2017.</p>	<p>We will review the adequacy and effectiveness of the Fraud Policy and ICT Direction, once issued.</p> <p>We will review the Staff Code of Conduct and Disaster Recovery policies and procedures during our interim visit in March 2017.</p>

## Reporting arrangements

**4.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**5.** 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 management to confirm factual accuracy.

**6.** We will provide an independent auditor's report to NMS, the Auditor General for Scotland and the Scottish Parliament, summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

**7.** Under the Public Finance and Accountability (Scotland) Act 2000, there is a requirement for the resource account of the Scottish Government and related bodies to be presented to Parliament within nine months of the financial year-end i.e. by 31 December.

**8.** Under section 46 of the Charities and Trustee Investment (Scotland) Act 2005, we have a duty as auditors of NMS to report matters of "material significance" to the Office of the Scottish Charity Regulator ("OSCR"). In addition, we have discretion to report matters we consider relevant to OSCR.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit & Risk Committee (or Board) Date
Annual Audit Plan	28 February 2017	14 March 2017
Annual Audit Report including ISA 260 requirements	8 September 2017	8 September 2017
Signed Independent Auditor's Report	21 September 2017	20 September 2017 (Board Approval)

### Audit fee

9. The audit fee for the 2016/17 audit of NMS is £22,830 (2015/16 - £24,370). In determining the audit fee we have taken account of the risk exposure of NMS, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package, on Friday 23 June 2017.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit & Risk Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

13. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

14. We give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**15.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing NMS. Our audit approach includes:

- understanding the business of NMS and the associated risks which could impact on the financial statements
- completing initial system reviews to assess the key controls that operate within each of the main NMS financial systems
- identifying major transaction streams, balances and areas of estimation and understanding how NMS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the audited body and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements for charitable bodies
- the regularity of the expenditure and income
- the consistency between the narrative in the Trustees' Annual Report and the results in the financial statements
- the consistency of the Governance Statement.

## Materiality

**17.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for NMS are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<p><b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross assets for the year ended 31 March 2016 based on the latest audited accounts for 2015/16. We have used gross assets as the basis for calculating materiality as a primary function of NMS is to operate as a custodian of public assets. This approach is in line with ISA 320 Audit Materiality and Practice Note 10 - Audit of Financial Statements of Public Sector Bodies in the United Kingdom.</p>	£1.764 million
<p><b>Performance materiality</b> - 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 calculated performance materiality at 50% of planning materiality.</p>	£0.882 million
<p><b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality (rounded).</p>	£35,000

### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Risk Committee dates:

## Exhibit 4

### Financial statements' timetable

 Key stage	 Date
Latest submission date of unaudited NMS financial statements with complete working papers package	23 June 2017
Latest date for final clearance meeting with Director of Finance and Planning	21 July 2017
Agreement of audited unsigned financial statements; Issue of Draft Annual Audit Report including ISA 260 report to those charged with governance	4 August 2017
Presentation of Annual Audit Report to Audit and Risk Committee	8 September 2017
Approval of NMS Annual Report and Accounts by Board	20 September 2017
Independent auditor's report signed	21 September 2017

## Internal audit

**19.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and we carry out an assessment of the internal audit function.

**20.** As KPMG LLP provide internal audit for a number of shared clients with Audit Scotland, our colleagues have completed a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards ("PSIAS"). This review concluded that that KPMG's policies and practices are compliant with the PSIAS. We have also completed a local review of internal audit arrangements for NMS and have concluded these arrangements to be satisfactory.

**21.** We are adopting a largely substantive approach to our audit. As such, we will not place formal reliance on the work of internal audit to support our audit opinion on the financial statements. Having reviewed the Internal Audit Plan, we plan to consider Internal Audit's work on *Procurement Follow-up and Government Procurement Cards* and *Cyber Security* in respect of our wider dimension audit responsibilities.

## National Fraud Initiative (NFI)

**22.** NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

**23.** The current data matching exercise collected data in October 2016 and match investigation work began in January 2017. NMS is required to carry out its own investigation of data matches, as the organisation uses various financial systems which are independent from Scottish Government systems. We will monitor participation and progress with the NFI exercise and complete an audit questionnaire which will reflect the activity undertaken by NMS to June 2017. We will report the outcomes of our review in our Annual Audit Report.

## Audit dimensions

**24.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



#### Financial sustainability

**25.** 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 the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether NMS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

#### Financial management

**26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether NMS has arrangements in place to ensure systems of internal control are operating effectively
- whether NMS can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how NMS has assured itself that its financial capacity and skills are appropriate
- whether NMS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

#### Governance and transparency

**27.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether NMS can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

**28.** An additional area we will cover in our 2016/17 audit is a follow-up review of a previous Audit Scotland national performance audits:

- **The Role of Boards:** This report was published in September 2010. The follow up review will assess NMS's governance, decision-making and scrutiny arrangements.

### Value for money

**29.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on the following over our five-year appointment:

- NMS can provide evidence that it is demonstrating value for money in the use of its resources.
- NMS can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- NMS can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

### Independence and objectivity

**30.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**31.** The engagement lead for National Museums Scotland is Asif A Haseeb. 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 Museums Scotland.

### Quality control

**32.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

# National Museums Scotland

## Annual Audit Plan 2016/17

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