

National Museums Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for National Museums Scotland and the Auditor General for Scotland

21 September 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.

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Key messages

Audit of the 2016/17 financial statements

- 1 The financial statements of National Museums Scotland (“NMS”) for 2016/17 give a true and fair view of the state of its affairs and of its income and expenditure for the year.
- 2 The other information in the Trustees’ Annual Report is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 3 NMS had effective overall management of the 2016/17 budget.
- 4 Systems of internal control operated effectively in 2016/17 with scope for improvements in some areas.
- 5 NMS has completed all NFI matches. However, officers should seek to report the results of this exercise to management and trustees.

Financial sustainability

- 6 NMS has adequate financial planning arrangements in place based on its Strategic Plan and Operational Plan.
- 7 There are no significant concerns about overall financial position of NMS. However, NMS should seek to address forecast shortfalls in 2018/19 and 2019/20.

Governance and transparency

- 8 NMS has largely effective governance arrangements in place. However, NMS should seek to finalise its Framework Agreement with the Scottish Government.
- 9 NMS is open and transparent in the way it conducts its business but with some scope for improvement.
- 10 Internal Audit identified weaknesses in its review of Information Security.

Value for money

- 11 NMS has a well-developed performance management framework in place.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of National Museums Scotland.
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit & Risk Committee. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an interim visit, during which we reviewed National Museums Scotland's ("NMS") key financial systems and undertook early substantive testing of payroll, income and expenditure.
 - an audit of the NMS's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. National Museums Scotland is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for

governance, propriety and regularity that enable the board to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and the auditing profession's ethical guidance.
6. These responsibilities include giving independent opinions on the financial statements, regularity of income and expenditure and the Trustees' Annual Report and governance statement. We also review and report on the arrangements within National Museums Scotland to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 23\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both National Museums Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk after the annual report and financial statements have been laid before the Scottish Parliament.
12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of NMS for 2016/17 give a true and fair view of the state of the body's affairs and of its income and expenditure for the year.

The other information in the Trustees' Annual Report is consistent with the financial statements and prepared in accordance with legal requirements.

Unqualified audit opinions

- 13.** The annual report and accounts for the year ended 31 March 2017 were approved by the board on 20/09/2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity of expenditure and income; and
 - an unqualified audit opinion on the Trustees' Annual Report, which has been prepared in accordance with the Charities Statement of Recommended Practice (SORP), and the Governance Statement.
- 14.** Additionally, we are satisfied that there are no matters which we are required to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

- 15.** We received the unaudited financial statements on 23/06/2017, in line with our agreed audit timetable.
- 16.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.
- 17.** NMS's Director of Finance & Planning left in May 2017. We would like to express our thanks to the Interim Director of Finance & Planning and the Finance Manager for their assistance during the financial statements' audit.

Whole of Government Accounts ("WGA")

- 18.** In accordance with the WGA guidance we completed the required assurance statement and submitted to the National Audit Office ("NAO") by the 30 September 2017 deadline.

Risk of material misstatement

19. [Appendix 2 \(page 26\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

20. Materiality defines the maximum misstatement that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
21. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
22. On receipt of the unaudited 2016/17 annual report and accounts, we reviewed our original materiality calculations and concluded that they remained appropriate subject to adjustments to base our materiality on gross assets as at 31 March 2017. Our revised materiality thresholds are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
<p>Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross assets for the year ended 31 March 2017. 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>	£1.855 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of misstatements 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 overall materiality.</p>	£0.928 million
<p>Reporting threshold – 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 overall materiality.</p>	£37,000

Source: Audit Scotland

Evaluation of misstatements

23. There were no material adjustments to the unaudited financial statements arising from our audit. There were two unadjusted misstatements in excess of our £37,000 reporting threshold.
24. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into

account advice from senior officer and materiality levels. Management does not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements. We agree that these amounts are immaterial in relation to our audit opinion.

Significant findings from the audit

25. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 23\)](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Prior Year Misstatement</p> <p>We identified that there is a misstatement in the closing 2015/16 figures for debtors and creditors. 2015/16 debtors have been overstated by £471k and 2015/16 creditors have been understated by the same amount.</p> <p>This arose as a result of an audit adjustment identified by NMS's previous auditors, PWC.</p> <p>The Finance Manager journalled to correct this misstatement. The Director of Finance and Planning then ran a trial balance from the ledger and manually adjusted this again on the face of the spreadsheet. Therefore, the adjustment was processed twice, for the purposes of NMS's 2015/16 accounts.</p> <p>The prior-year (2015/16) figures for debtors and creditors in the 2016/17 accounts have been misstated. As this was only journalled once in the ledger, it does not affect the opening balances in the ledger or this year's amounts.</p>	<p>Management has not adjusted the accounts in respect of this prior-year misstatement.</p>
<p>2. Carbon Reduction Commitment ("CRC") Accrual</p> <p>NMS has recognised £116k of expenditure in respect of the CRC for 2015/16. This was invoiced in November 2016.</p> <p>NMS should have recognised an accrual in its 2015/16 accounts in respect of these costs. Similarly, management should have recognised an accrual in its 2016/17 accounts in respect of the anticipated costs for CRC in 2016/17.</p> <p>As NMS is effectively one year behind in recognising expenditure in relation to its CRC costs, and as NMS has not recognised a liability for this year's costs, its reserves are overstated and its</p>	<p>Management has not adjusted the accounts in respect of this misstatement.</p> <p>Management advised that the CRC spend has always been accounted for in the year after it relates as this is when our carbon footprint & the price per unit is announced. Management commit to looking into this further during 2017/18</p> <p>Refer to Recommendation 1 - Action Plan (Appendix 1).</p>

Issue	Resolution
<p>creditors are understated.</p> <p>The adjusting journal would be</p> <p>Dr Reserves Cr Accruals.</p>	

Source: Audit Scotland

Other findings

26. Our audit identified a small number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited financial statements.

Heritage Assets

27. National Museums Scotland has capitalised £8.3m of heritage assets in its Balance Sheet. This consists of assets purchased since 2001. Assets purchased before this time are not capitalised in accordance with NMS's accounting policy and the FReM.
28. NMS maintains a database called Ad Lib for some of the assets in its collection, including some capitalised heritage assets. However, this does not contain financial information.
29. Management provided a list of heritage asset additions with corresponding values, which we substantively tested for existence and completeness. No issues were identified.
30. However, there is no reconciliation between Ad Lib and the capitalised heritage assets. As such, there is a risk that heritage assets capitalised may have been lost, stolen or damaged and therefore should not be recognised in the Balance Sheet.

Recommendation 2

Management should introduce a reconciliation between its Ad Lib database and the capitalised heritage assets in its financial statements to ensure that all capitalised heritage assets are still in use and are held by NMS.

Collective Agreement

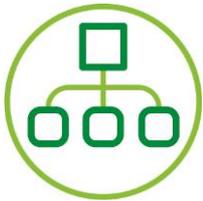
31. During 2016/17, NMS entered into a collective agreement with the trade union, PCS to settle a dispute. This enabled NMS to alter the contracts of its museum staff to reduce their working week from 42 to 37 hours and to remove the weekend working allowance.
32. The total cost of this in 2016/17 was £1.145m, which was a non-recurring cost. This was approved by the Scottish Government, who provided £900,000 of funding to part-fund this. We reviewed the collective agreement and Scottish Government approval. We substantively tested a sample of settlement agreements. No issues were identified.

NMS Charitable Trust

- 33.** In our Annual Audit Plan, we noted that NMS doesn't consolidate the National Museums of Scotland Charitable Trust ("the Charitable Trust"). The previous auditors, PWC, agreed with management's assessment that no consolidation of the Charitable Trust was required, as NMS didn't exercise control over it.
- 34.** This year, we assessed NMS's relationship with the Charitable Trust. We are content that, in 2016/17, NMS did not exercise control over the Charitable Trust, as required by SORP paragraph 24.15. Therefore, we agree with management's decision not to consolidate the Charitable Trust this year. We will continue to assess NMS's relationship with the Charitable Trust throughout the remainder of our audit appointment.

Part 2

Financial management



Main judgements

NMS had effective overall management of the 2016/17 budget.

Systems of internal control operated effectively in 2016/17 with scope for improvements in some areas.

NMS has completed all NFI matches. However, officers should seek to report the results of this exercise to management and trustees.

Financial performance in 2016/17

35. The main financial objective for National Museums Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.
36. NMS has reported an outturn of £22.45 million, remaining within its overall budget for 2016/17. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2016/17

Performance	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	21.25	21.25	0
Capital DEL	1.2	1.2	0
Total DEL	22.45	22.45	0

Source: NMS 2016/17 Accounts

Internal controls

37. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NMS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

38. We concluded that the controls were operating satisfactorily. No significant internal control weaknesses were identified during the audit which could affect NMS's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
39. We identified the following control weaknesses, which we communicated to management.
40. **Journal Authorisation:** There is no review/authorisation of journals raised by finance staff. This poses a particular risk given that the Finance Manager has super user access to a number of key financial systems.

Recommendation 3

Management should review journals on a regular basis to ensure that no erroneous or fraudulent journals are posted. The Finance Manager's super user access poses a particular risk of fraud.

41. **Existence of Employees:** There is no process to confirm the existence of employees. This is a particular risk given that NMS employs a number of seasonal staff during the summer months to cope with increased visitor numbers in its museums.

Recommendation 4

NMS should introduce a control to check the existence of its staff. This would mitigate the risk of "ghost" employees being paid.

42. **Access to Payroll System:** We identified that two of the ten user accounts should have been removed. One belonged to a member of the HR team who had recently left. The other member of staff, also from HR, had changed their name and had two access accounts. HR staff have read-only access to Payroll.

Recommendation 5

User access should be reviewed regularly. When staff are leaving, controls should be in place to ensure that their user access rights are removed to prevent unauthorised access to the system.

43. **Changes to Supplier Bank Details:** During 2016/17, management did not have a procedure in place to keep evidence of changes to supplier details. This was also identified through Internal Audit's review of controls.
44. Management has introduced a process from March 2017, which will address this. The Finance Manager now reviews all changes to supplier details on a monthly basis. Evidence of requests from suppliers regarding bank detail changes will be retained.

Budgetary processes

45. We also reviewed NMS's budgetary processes and budget monitoring arrangements. We met with the Business Support Manager and performed walkthrough testing of the budgeting process. From our review of budget monitoring reports, review of committee papers and attendance at committees we confirmed that senior management and trustees receive regular, timely and up to date financial information on the financial position.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

46. We concluded that NMS has effective budgetary monitoring and control arrangements that allow both trustees and management to carry out effective scrutiny of its finances.

Prevention and detection of fraud and irregularity

47. We assessed the NMS's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the Fraud Policy.
48. However, we noted that the Fraud Policy was last reviewed in September 2012. Management advised that they plan to review the Fraud Policy in 2017/18.

Recommendation 6

Management should review its Fraud Policy on a regular basis to ensure that it is designed to effectively manage the risk of fraud.

49. We concluded that NMS's arrangements for promoting fraud awareness are appropriate. There are adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

50. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It 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 error ([Exhibit 5](#)).

Exhibit 5

Total number of matches



344

Number recommended for investigation



26

Completed/closed investigations



344

Source: NFI Website.

51. NMS participates in NFI for payroll, creditors and procurement. NMS is proactive in completing its NFI exercises. NMS has reviewed all 344 matches, which demonstrates best practice and good engagement with the NFI exercise.
52. However, we note that NMS does not report the outcomes of its NFI exercise to its senior management team or trustees. Also, NMS has not completed the self-assessment questionnaire.

Recommendation 7

NMS should report the outcome of its NFI exercise to senior management and trustees. NMS should also complete the NFI self-assessment questionnaire and report this to its Audit & Risk Committee.

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

- 53.** We have reviewed the arrangements in place to maintain standards of conduct including the Staff and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.
- 54.** We identified that the Staff Code of Conduct had not been reviewed since January 2014. [Refer to Appendix 1, Recommendation 6.](#)
- 55.** Based on our review of the evidence we concluded that NMS has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgements

NMS has adequate financial planning arrangements in place based on its Strategic Plan and Operational Plan.

There are no significant concerns about overall financial position of NMS. However, NMS should seek to address forecast shortfalls in 2018/19 and 2019/20.

Financial planning

- 56. NMS's 2017/18 Budget was approved by its March 2017 Board. The budget has forecast a break-even position.
- 57. In 2017/18, NMS has received a £21.767m grant in aid ("GIA") settlement, comprising £20.317m resource allocation, £1.1m capital budget, £150k for National Fund for Acquisitions and £200k purchase grant.
- 58. NMS's resource GIA has reduced by £933k from 2016/17 resource budget in cash terms. However, in 2016/17, the Scottish Government provided £900k to help pay the cost of the settlement agreement with staff (see para 31-32 above). The budget assumes a further £6.4m of non-GIA income which includes commercial and philanthropic income.

2016/17 financial position

- 59. The Consolidated Balance Sheet summarises what is owned and owed by NMS. The financial statements show that NMS has net assets of £181.7 million, an increase of £9 million largely attributable to property, plant & equipment additions and assets under construction.
- 60. NMS's total income decreased from £38m to £34.5m, largely due to a reduction in donations and legacies.

Medium to long term financial planning

- 61. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.
- 62. We recognise that NMS is mainly funded through Grant-in-aid (65%) and this is set on a year-on-year basis by the Scottish Government ("SG").
- 63. NMS has prepared a high-level financial plan. This shows a forecast funding gap of £208k in 2018/19 and £678k in 2019/20. Management could further improve their financial planning by preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Recommendation 8

NMS's three-year financial plan shows a funding gap in 2018/19 and 2019/20. Management should seek to address these funding gaps. Management should seek to improve their financial planning by preparing sensitivity analysis and scenario planning.

Part 4

Governance and transparency



Main judgements

NMS has largely effective governance arrangements in place. However, NMS should seek to finalise its Framework Agreement with the Scottish Government.

NMS is open and transparent in the way it conducts its business but with some scope for improvement.

Internal Audit identified weaknesses in its review of Information Security.

Governance arrangements

64. This year, we carried out a review of the role of the NMS Board. This followed up recommendations from a previous Audit Scotland national performance report published in September 2010. This assessed the governance, decision-making and scrutiny arrangements of the Board. Our review included an assessment of Board papers and minutes and liaison with the Head of Corporate Policy & Performance.
65. In our Annual Audit Plan, we identified that NMS has yet to agree a Framework Document with the Scottish Government. 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.
66. Management advised that they have made significant progress in agreeing a Framework Document with the Scottish Government.
67. We concluded that there are effective governance, decision-making and scrutiny arrangements. However, management should seek to conclude its Framework Document with the Scottish Government in 2017/18.

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.

The Annual Governance Statement

68. Under the Treasury's Financial Reporting Manual (FRm), NMS must prepare an annual governance statement within the Annual Report and Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.
69. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

70. We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed presents a comprehensive picture of governance arrangements and matters. Some minor presentational changes were made.

Internal audit

71. Internal audit provides NMS and the Accountable Officer with independent assurance on NMS's overall risk management, internal control and corporate governance processes.

72. The internal audit function is carried out by KPMG LLP. We carried out a review of the adequacy of the internal audit function and concluded that operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

73. To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on the following internal audit reports in respect of our wider dimension audit responsibilities:

- Procurement Follow-up & Government Procurement Cards (paragraph 89-90 below)
- Information Security (paragraph 74-76 below).

ICT risks

74. We placed reliance on Internal Audit's review of Information Security. Internal Audit identified four high risk recommendations.

- Deficiencies regarding information security ownership and governance were identified. In particular, responsibility for information security had not been assigned, there was no formal review of information security policies and procedure and there has been no process to identify and document NMS's key information assets.
- Information risk management practices are not consistently documented and implemented across NMS. In particular, a detailed information risk assessment has not been completed; there is limited risk management documentation across the business; a risk framework has not been established.
- There are limited data loss prevention controls to protect the security of sensitive data assets. This particularly affects portable media, laptops and removable media and the use of cloud file sharing.
- There were deficiencies in network monitoring and security capabilities. In particular, intrusion detection systems are not in place, a patching regime is not defined for non-Microsoft products and there is no dedicated capability to identify and report on security incidents or suspicious network activity.

75. Management has agreed actions to address these issues.

76. NMS has an ICT direction 2009-15, which was drafted in January 2009. However, this has not been updated. Management advised that when the 2009-15 strategy came to its conclusion, there was an internal audit review of ICT provision within NMS. This resulted in a comprehensive action plan which included the production of a new Digital Strategy.

Risk management

77. We reviewed NMS's risk management arrangements. NMS has a risk register, which is presented to every Audit & Risk Committee. However, there is no documented policy or procedure.
78. The SPFM requires that organisations determine their risk appetite and the overall risk management process should be reviewed at least once a year to deliver assurance that it remains effective.

Recommendation 9

NMS should develop a formal risk management policy and procedure, in line with the requirements of the SPFM.

Transparency

79. Transparency means that the public have access to understandable, relevant and timely information about how public bodies are taking decisions and how they are using resources.
80. Overall, we concluded that NMS conducts its business in an open and transparent manner. We noted that NMS holds an annual public meeting, which is good practice.
81. However, we believe that there are some areas where it could improve current arrangements. In particular, board and committee papers are not published online, nor are committee minutes.
82. Management advised that the board has previously considered this and is of the view that the current arrangements are appropriate for the effective conduct of its business. However, there is no formal, documented rationale for this approach.

Recommendation 10

With increasing public expectations for more openness in the conduct of public business, NMS should keep this area under review and consider whether there is scope to enhance transparency. This could include, for example, reviewing the availability of board and committee papers and committee minutes.

Part 5

Value for money



Main judgements

NMS has a well-developed performance management framework in place.

83. Value for money is a key element of our audit approach. In 2016/17 we did not identify any significant value for money risks during our planning and therefore we did not undertake any specific value for money work this year. We will keep this area under review over the five-year audit appointment and will report as appropriate.

Performance management

84. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with NMS agree to undertake local work in this area.

85. NMS has a 2016-20 Strategic Plan, which contains high-level objectives. The 2016/17 Operational Plan contains specific actions to implement the objectives of the four-year strategic plan.

86. NMS has ten key performance indicators (“KPIs”). All KPIs met their target in 2016/17. The National Museum of Scotland was named as the most popular visitor attraction in Scotland in 2016, based on figures from the Association of Scottish Visitor Attractions.

87. The board is kept well informed of performance across all areas of activity. We attend audit and risk committee and review board papers to gain an insight into how well performance is scrutinised.

88. We concluded that NMS has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Procurement

89. As noted at para 72 above, we placed reliance on Internal Audit’s follow-up Procurement Review. The following issues were identified by Internal Audit:

- Procurement Training: Training has been delivered to the majority of staff involved in procurement activity. However, there are a small number of staff who have still not been trained on the new procurement procedures and are

Value for money is concerned with using resources effectively and continually improving services.

still carrying out procurement based on previous guidance. Some staff who had undertaken the initial training still do not feel confident in some of the more complex areas of procurement and consider they would benefit from further training or guidance in these areas.

- Although a new central contracts register has been established within the procurement playbook, it was not being updated by all staff members. There is a risk that NMS is failing to capture all necessary and useful information about its contracts, and in failing to do so will not be meeting requirements of the Public Reform (Scotland) Act 2014 when implemented.
- Changes implemented to date have been largely at an operational level. Internal audit found that there are still insufficient measures to provide NMS with strategic oversight of procurement activity across the organisation. There is a risk that in absence clear delegation of oversight of all procurement activity, NMS cannot demonstrate value for money, nor that it is meeting requirements of the ongoing public procurement reform programme. These include the need to develop a procurement strategy if spend on regulated contracts is over £5 million in a financial year and the duty to consider certain sustainability requirements for all contracts over £50,000.

90. Management has agreed actions to address these issues.

National performance audit reports

91. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 3](#) accompanying this report.

- [The National Fraud Initiative in Scotland](#) – June 2016
- [Supporting Scotland's economic growth](#) – July 2016
- [Superfast broadband for Scotland: a progress update](#) – August 2016
- [Scotland's new financial powers](#) – September 2016
- [i6: a review](#) (Review of Police Scotland's i6 IT system) – March 2017
- [Managing new financial powers: an update](#) – March 2017

92. NMS does not have arrangements in place for considering and reviewing Audit Scotland's national reports. Management has advised that the Director of Finance and Planning receives copies of these reports and will continue to review and forward to Audit & Risk Committee, as appropriate.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	<p>1. Carbon Reduction Commitment Accrual</p> <p>NMS has recognised its 2015/16 carbon reduction commitment costs in 2016/17. It has not accrued any costs for 2016/17.</p> <p>Risk</p> <p>Carbon reduction commitment costs are not being recognised in the correct financial year.</p>	<p>Management should ensure that there is an accrual for carbon reduction commitments going in future years.</p>	<p>Management commit to review the situation in 2017/18.</p> <p>Responsible Officer: Director of Finance & Planning.</p> <p>Agreed Date: November 2017.</p>
10	<p>2. Heritage Asset Register</p> <p>NMS maintains a database called Ad Lib for some of its collection, including some capitalised heritage assets. However, this does not contain financial information and there is no reconciliation between Ad Lib and the capitalised heritage assets.</p> <p>Risk</p> <p>Heritage assets capitalised may have been lost, stolen or damaged and therefore should not be recognised in the Balance Sheet.</p>	<p>Management should introduce a reconciliation between Ad Lib and the capitalised heritage assets in its financial statements to ensure that all capitalised heritage assets are still in use and are held by NMS.</p>	<p>The Collections team has an audit programme to spot check items held on Ad Lib as it is not possible to reconcile all items. In addition, details of items that have been damaged, lost or stolen are recorded. Management commit to ensuring that this is reviewed and appropriate judgements made on whether the carrying value in the balance sheet under heritage assets should be adjusted</p> <p>Responsible Officer: Director of Finance & Planning.</p> <p>Agreed Date: November 2017</p>
13	<p>3. Journal Authorisation</p> <p>There is no review/authorisation of journals raised by finance staff.</p> <p>Risk</p> <p>This poses a risk of fraud/error. This poses a particular risk given that the Finance Manager has super</p>	<p>Management should review journals on a regular basis to ensure that no erroneous or fraudulent journals are posted. The Finance Manager's super user access poses a particular risk of fraud.</p>	<p>Management will implement a process for signing off high value journals</p> <p>Responsible Officer: Director of Finance & Planning.</p> <p>Agreed Date: December 2017</p>



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user access to a number of key financial systems.

13

4. Existence of Employees

There is no process to confirm the existence of employees.

Risk

There is a risk that “ghost” employees are being paid. This is a particular risk given that NMS employs a number of seasonal staff during the summer months to cope with increased visitor numbers in its museum.

NMS should introduce a control to check the existence of its staff. This would mitigate the risk of “ghost” employees being paid.

Existing check undertaken during budget setting process. Introduction of Cascade payroll module will then ensure a full link with HR data. This will considerably reduce the risk as only HR will be able to add employees.

Responsible Officer: Director of Finance & Planning.

Agreed Date: January 2018

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5. Access to Payroll System:

We identified that two of the ten user accounts should have been removed. One belonged to a member of the HR team who had recently left. The other member of staff, also a member of HR had changed their name and had two access accounts.

Risk

There is a risk that unauthorised staff may access the payroll system.

User access should be reviewed regularly. When staff are leaving, controls should be in place to ensure that their user access rights are removed to prevent unauthorised access to the system.

Only Finance have full access rights with HR having read-only access. Access rights, will be reviewed and documented alongside the implementation of Cascade payroll module

Responsible Officer: Director of Finance & Planning.

Agreed Date: January 2018

14,
15

6. Review of Policies

The Fraud Policy was last reviewed in September 2012.

The Staff Code of Conduct was last reviewed in 2014.

Risk

There is a risk that the Fraud Policy and Staff Code of Conduct does not meet NMS's current requirements.

Management should review its Fraud Policy and Staff Code of Conduct on a regular basis to ensure that it is designed to effectively manage the risk of fraud.

The Fraud Policy and the Staff Code of Conduct will be reviewed in 2017/18

Responsible Officer: Director of Finance & Planning/Head of HR

Agreed Date: March 2018

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7. National Fraud Initiative

NMS does not report the outcomes of its NFI exercise to its senior management team or trustees. NMS has not completed the self-assessment questionnaire.

NMS should report the outcome of its NFI exercise to senior management and trustees. NMS should also complete the NFI self-assessment questionnaire and report this to its Audit & Risk Committee.

Management will ensure that exercise outcomes and the questionnaire are reported appropriately.

Responsible Officer: Director of Finance & Planning.

Agreed Date: September



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17	<p>8. Financial Planning</p> <p>NMS's three-year financial plan shows a funding gap in 2018/19 and 2019/20. This shows a forecast funding gap of £208k in 2018/19 and £678k in 2019/20.</p>	<p>Management should seek to address these funding gaps. Management should seek to improve their financial planning by preparing sensitivity analysis and scenario planning.</p>	<p>Reporting potential funding gaps forecast for future years ensures that the cost pressures being experienced by the organisation are highlighted to both Board and Government. It reflects the ongoing Government practise of only issuing funding settlements one year in advance which makes longer term planning difficult. In reality, Management understand the need to manage expenditure and actively plans and budgets for a breakeven position on an annual basis.</p> <p>Responsible Officer: Director of Finance & Planning.</p> <p>Agreed Date: Annually</p>
20	<p>9. Risk management</p> <p>NMS does not have a documented risk management policy or procedure.</p> <p>The Scottish Public Finance Manual ("SPFM") requires that organisations determine their risk appetite and the overall risk management process should be reviewed at least once a year to deliver assurance that it remains effective.</p>	<p>NMS should develop a formal risk management policy and procedure, in line with the requirements of the SPFM.</p>	<p>A risk management policy will be developed and agreed with Audit & Risk Committee</p> <p>Responsible Officer: Director of Finance & Planning.</p> <p>Agreed Date: November 2017</p>
20	<p>10. Transparency</p> <p>NMS doesn't publish committee minutes or committee/board papers.</p>	<p>With increasing public expectations for more openness in the conduct of public business, NMS should keep this area under review and consider whether there is scope to enhance transparency. This could include, for example, reviewing the availability of board and committee papers and committee minutes.</p>	<p>Recommendation noted. Will be kept under review by the Nominations and Governance Committee</p> <p>Responsible Officer: Director</p> <p>Agreed Date: March 2018</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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>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>We substantively tested a sample of journals.</p> <p>We reviewed management's estimates.</p> <p>We substantively tested a sample of accruals and prepayments.</p> <p>No significant issues were identified.</p>
<p>2 Risk of fraud over income and expenditure</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 Code of Audit Practice and Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom expands the ISA assumption to require consideration of a risk of fraud over aspects of expenditure for public sector bodies.</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>We substantively tested income and expenditure.</p> <p>We reviewed NMS's work on the NFI.</p> <p>No significant issues were identified.</p>
<p>3 Estimation and judgements - Property Indexation Revaluation</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</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>	<p>We substantively tested the property indexation adjustments. We discussed management's approach in advance of year-end.</p> <p>No significant issues were identified.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>£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>4 Group Accounts</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>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>	<p>We are content that, in 2016/17, NMS did not exercise control over the Charitable Trust, as required by SORP paragraph 24.15. Therefore, we agree with management's decision not to consolidate the Charitable Trust this year. We will continue to assess NMS's relationship with the Charitable Trust throughout the remainder of our audit appointment.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>5 Governance and Accountability - Framework Document</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 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>Management has confirmed that they have made significant progress in agreeing a Framework Document with the Scottish Government.</p> <p>Refer to paragraphs 64-66.</p>
<p>6 Governance and Accountability - Risk Management Policy</p>	<p>We will attend Audit & Risk Committees and assess the effectiveness</p>	<p>No update in 2016/17. Refer to Appendix 1, point 9 (page 25).</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>NMS has a risk register that is prepared by the Executive Team and reviewed by the Audit & Risk Committee.</p> <p>However, NMS does not have a documented risk management policy. The Scottish Public Finance Manual ("SPFM") Risk Management chapter requires 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>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>	
<p>6 Other Policies and Procedures</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"> • Staff Code of Conduct • Disaster Recovery Policy 	<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>	<p>The Fraud Policy and ICT Direction have yet to be updated.</p> <p>We reviewed the Staff Code of Conduct and noted that it was last reviewed in 2014. Refer to paragraphs 53-55</p> <p>We reviewed the disaster recovery policies and procedures. Management is in the process of updating these.</p>

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update  Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review  Managing new financial powers: an update

National Museums Scotland

2016/17 Annual Audit Report

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