

National Museums Scotland

Report on the 2008/09 Audit

4 November 2009

The logo for Audit Scotland, featuring a stylized blue 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

National Museums Scotland

Report on the 2008/09 Audit

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Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by National Museums Scotland (NMS). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of NMS for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

The Scottish Government set a resource budget for NMS of £36.549 million for 2008/09, comprising an operating budget of £30.578 million and a capital budget of £5.971 million. The operating budget included non cash items for cost of capital at £5.372 million and depreciation and impairment at £4.128 million. NMS operated within the resource budget for cash items but incurred an excess of £869,000 against the non cash items for which the Scottish Government has provided resource cover. Over the year, its net asset position increased by £15.989 million to £202,937 million, due mainly to revaluation of the property portfolio and capital works on the Royal Museum project.

Scottish Ministers have agreed a resource budget for NMS of £33.017 million for 2009/10. NMS's updated corporate plan for the period ending 2012 anticipates savings from energy efficiency, partnership working with other national collections' bodies and continuing efforts to generate funding from sources outside government. Working within budget represents a significant challenge to NMS given the need to make efficiency savings of 2% per annum whilst absorbing pay inflation and other cost pressures.

Effective budget monitoring arrangements remain crucial to NMS achieving its financial targets and delivering its objectives within tighter financial settlements. Given the potential for volatility in non-cash charges, including property valuations and impairments, it is important that NMS monitor these closely in-year.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. The corporate governance and control arrangements for NMS operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.



Performance

NMS met six of the eight performance indicators set by the Scottish Government. The number of visits to NMS museums exceeded the target by 70,000 and visitor surveys reported overall satisfaction scores of 8.3 out of 10 compared with a target of 7.0 out of 10. NMS also significantly exceeded its targets for new and long term loans and academic publications. The exceptions related to web pages viewed and the percentage of collections' storage meeting appropriate standards, both of which were marginally below target due to, respectively; a reduction in exhibitions as a result of the Royal Museum Project, and; a large but temporary increase in storage requirements, also as a consequence of the Royal Museum Project.

Looking forward

The final part of our report notes some key risk areas and issues for NMS going forward, including securing the remaining funding required to complete the Royal Museum Project and achieving efficiency targets in the context of increased pressures on government funding and the impact of the recession on the availability of sponsorships.

We also highlight a number of national issues which affect all public sector bodies including NMS, such as the National Performance Framework; the impact of the application of FRS 30 Heritage Assets and the review of data handling arrangements in public bodies across Scotland. We will continue to monitor NMS's progress in these areas.

The assistance and co-operation given to us by staff and Trustees during our audit is gratefully acknowledged.



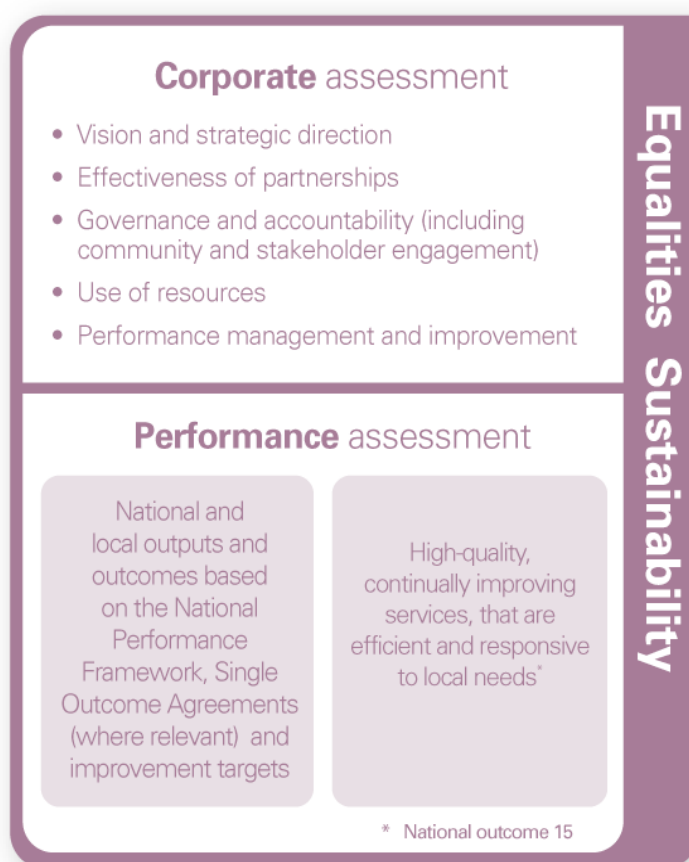
4 November 2009



Introduction

1. This report summarises the findings from our 2008/09 audit of NMS. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 17 July 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We issued an ISA 260 report to those charged with governance in August 2009 and we briefly touch on the key issues we raised in this report. Appendix A of the report set out the key risks highlighted in the report and the action planned by management to address them.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of NMS's arrangements.

Exhibit 1: Framework for a best value audit of a public body

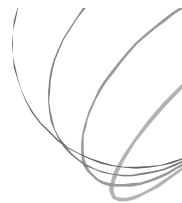




4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas.

5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for NMS, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website: www.audit-scotland.gov.uk.

6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by staff, management and Board members of NMS during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

7. In this section we summarise key outcomes from our audit of NMS's financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of NMS and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the Report of the Board of Trustees, the Statement on Internal Control and the unaudited part of the Remuneration Report, with the financial statements
 - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Director as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of NMS.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of NMS for 2008/09.
11. The unaudited accounts were provided to us on 17 June 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 17 August 2009 as planned. The accounts were signed by on the 11 September and we certified them on the 30 September 2009.



Issues arising from the audit

12. As required by auditing standards we provided a report to the audit committee on 17 August 2009 which covered the main issues arising from our audit of the financial statements and the Audit Committee recommended the accounts for approval. The main issues discussed were:

Asset valuation - The Royal Museum building was re-valued by the Valuation Office Agency on a depreciated replacement cost (DRC) basis using an identical replacement approach. NMS agreed to review its valuation approach for the Royal Museum building during 2009/10 in comparison with detailed accounting requirements and document the justification for the accounting treatment adopted, including any approvals that may be required. We will review this as part of our audit of the 2009/10 accounts.

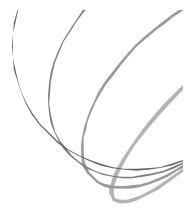
Fund accounting - NMS did not fully comply with the disclosure requirements for fund accounting, in particular the need to distinguish between restricted and unrestricted funds, within the 2009/2010 accounts. NMS agreed that it would review its current practice with the objective of ensuring full compliance in 2009/2010.

Resource budget monitoring - NMS did not fully carry out its normal in-year monitoring of outturn against budget for the non-cash elements of grant-in-aid approved by the Scottish Government. The absence of regular monitoring of non-cash expenditure against budget increases the risk that any overspend will not be identified until after the year-end, when there is limited scope for corrective action to be taken. Given the potential for volatility in non-cash charges, including property valuations and impairments, it is important that the impact of these charges is monitored in-year. NMS agreed to ensure that in-year monitoring arrangements are properly applied in the future.

NMS Charitable Trust - The Charitable Trust has been in existence for some time and NMS do not consolidate the Trust's results into its accounts as it considers that this is not appropriate legally or under accounting requirements. This treatment has not been formally revisited and documented in comparison with recently revised financial reporting standards. Audit Scotland will review the relationship between NMS and the Trust in more detail for the 2009/10 audit, focusing on the accounting treatment.

Regularity

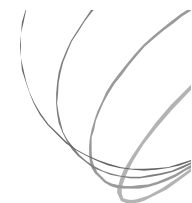
13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



International financial reporting standards (IFRS)

14. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.

15. However, this timetable does not apply to registered charities, such as NMS, which will follow a slower timetable for convergence agreed by the UK Accounting Standards Board. Notwithstanding the slower timetable applying to NMS, the convergence process may require significant resource to complete and it is important that NMS anticipates major changes which will impact on its accounting and manages the transition over the next few years.



Use of Resources

16. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NMS's

- financial position
- financial management
- response to national audit reports

Financial Position

Outturn 2008/09

17. NMS is required to operate within its resource budget as set out in the Grant in Aid offer letter from the Scottish Government. In 2008/09 NMS operated within the Grant in Aid offer for cash and capital expenditure but it exceeded its non cash allocation by £869,000 – see exhibit 2 below. The sponsor branch in the Scottish Government provided resource cover for the excess and assured NMS that it will not be clawed back in 2009/10.

Exhibit 2 – Performance against resource budget 2008/09 (£ 000s)

Limits	Grant in aid offer	Actual Outturn	Difference
Cash Items			
Operating costs	21,078	21,078	Nil
Purchase grant	510	510	Nil
National Fund for acquisitions	200	200	Nil
Capital – Royal Museum Project	4,261	4,261	Nil
Capital – Museum of Flight project	1,000	1,000	Nil
Non cash items			
Cost of capital	5,372	5,651	279
Depreciation and impairment	4,128	4,718	590
Total	36,549	37,418	869

18. NMS's consolidated balance sheet at 31 March 2009 shows total net assets of £202.937 million compared to £186.949 million in 2007/08, with the increase due mainly to property revaluations and capital works on the Royal Museum and Museum of Flight.

19. The excess of expenditure over income after taxation, per the Income and Expenditure Account, increased from £28.673 million in 2007/08 to £32.644 million in 2008/09. The increase is due to a combination of factors: increased non-cash charges, mainly depreciation; increased operating charges, and; reduced income due to closure of the Royal Museum during re-development. The going concern basis of the accounts is not affected by this situation due to continued funding from the Scottish Government, and appropriate disclosure to that effect is made in the accounts.



Financial sustainability and the 2009/10 budget

20. Scottish Ministers have approved Grant in aid for NMS of £33.017 million for 2009/10, as set out below:

Exhibit 3 – 2009/10 Resource Plan (£ million)

Limits	Budget
Cash items	£m
Operating costs	21.270
Purchase grant	0.710
Capital – Royal Museum Project	4.261
Capital – Granton extension	0.100
Non cash items	
Cost of capital	3.296
Depreciation and impairment	3.380
Total	33.017

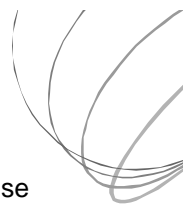
21. Within the current spending review period, NMS is expected to achieve 2% year on year efficiency savings, which savings are reflected in these budget figures. Delivering efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge for NMS. Effective budget monitoring arrangements are therefore crucial if NMS is to achieve its financial targets and deliver its objectives within tighter financial settlements.
22. As part of the Scottish Government's More Effective Government initiative, the National Collections Institutions appointed a Joint Working Manager. The Manager has compiled a priority programme for five areas of common working across the Institutions. The Scottish Government considers this programme to be a good model for shared services and the programme may become eligible for funding as the three bodies implement a joint work plan over the next two to three years.

National Studies

23. Audit Scotland published four national studies relevant to NMS's use of resources. These were Use of consultancy services, Improving energy efficiency, Major capital projects and Improving public sector purchasing. A summary of the reports is provided below. Copies of the full reports can be downloaded from our web site at www.audit-scotland.gov.uk.

Use of consultancy services

24. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were:
- The public sector is strengthening the way it buys goods and services.



- Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.
- In most cases, central government buys consultancy services well but some improvements can be made.
- Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.
- Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

25. The report made specific recommendations for public bodies to:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff
- gather and share consistent information on the consultancy skills bought and why consultants are used
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
- evaluate the work of consultants more systematically and share findings from these reviews
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

26. Where NMS engages consultants, it uses the procurement procedures operated by the Scottish Government.

Improving energy efficiency

27. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how



public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. Key findings included:

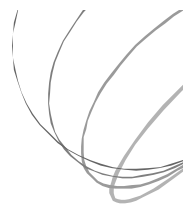
- funding has been made available by the Scottish Government and public bodies to improve energy efficiency
- while energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07
- there is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made
- a robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented
- there is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

28. NMS follows guidance from the Scottish Government on improving energy efficiency and it will implement the second year of its Sustainable Development Strategy in 2009/10.

Major capital projects

29. This report was the first systematic review of major capital projects in Scotland, and included the Royal Museum Project administered by NMS, which we referred to in our Report on last year's audit. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:

- In general, the achievement of cost and time targets improved significantly as projects progressed.
- Early cost and time estimates at project approval stage were too optimistic for many major projects.
- Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer.
- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment.



- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage.
- Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

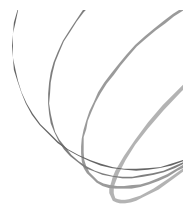
Improving public sector purchasing

30. The Audit Scotland report *Improving public sector purchasing* was published on 23 July 2009. It provides a position statement on the progress and impact of the Public Procurement Reform Programme (the Programme), which aimed at improving purchasing practice and making savings of about three per cent a year
31. The report finds that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement
32. The current economic climate means that more than ever, the public sector needs to find cash savings without cutting services or quality. Because of the public sector's size and combined purchasing power, there is still potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned
33. The report recommends that the public sector should increase the use of collaborative contracts. These are a key feature of the Programme, but are being developed more slowly than expected. The health sector has been the most successful in this, introducing 150 new contracts and saving £54 million in the two years to 2007/08. Other high level recommendations highlight the good purchasing practice that public bodies should adopt to demonstrate Best Value include;
 - Have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs.
 - Have up-to-date information on their purchasing activities such as supplier details, volume of transactions, value and type of spend.
 - Ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centre of expertise guidance.
 - Work with the Scottish Government and centres of expertise to identify and develop opportunities for collaboration and for improved purchasing practice.
 - Use procurement Best Practice Indicators to assess their performance and to continually improve how they buy goods and services.



- Report savings and other benefits on a regular and consistent basis.

34. Audit Scotland will follow up this report with further audit work on public sector purchasing.



Governance and Accountability

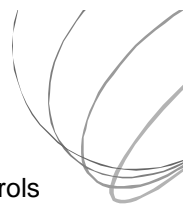
35. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of NMS's arrangements.
36. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

37. This year we reviewed:
 - key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct
38. Our overall conclusion is that arrangements within NMS are generally sound and have operated through 2008/09.
39. The current management statement and financial memorandum were issued in February 1993 and are now significantly out of date. We raised the need for updated versions with NMS and its sponsor directorate three years ago, but the issue remains outstanding. The delay in issuing revised documents undermines the accountability arrangements between NMS and the Scottish Government, and poses significant regularity and other risks. NMS acknowledges this and noted that the sponsor directorate within the Scottish Government is responsible for issuing these documents and NMS will continue to monitor progress in resolving this matter.

Systems of internal control

40. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09 the internal auditors, Baker Tilly UK, provided their opinion that, on the basis of the limited work undertaken in the year to 31 March 2009, NMS has an adequate framework of control over the systems examined.
41. As part of our audit we reviewed and tested the high level controls in a number of NMS systems that impact on the financial statements. This audit work covered a number of areas including budgetary



control, staff costs (starters and leavers) and purchases. Our overall conclusion was that key controls were operating effectively and that NMS has adequate systems of internal control in place.

Statement on Internal Control

42. The Statement on Internal Control provided by NMS's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out NMS's approach to this. The Statement on Internal Control highlighted the following areas where further work is required:
- The Corporate Management Team and Internal Audit identified weaknesses in Business Continuity and Disaster Recovery and NMS has prepared a Business Continuity Strategy and will develop a Business Continuity Plan in 2009/10.
 - NMS has identified a significant risk to Scotland's national collections as a result of a buildings' maintenance backlog of £16.3 million and is seeking funding from the Scottish Government to facilitate a planned maintenance programme.

Internal Audit

43. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on NMS internal audit function. We concluded that NMS' internal audit providers, Baker Tilly UK Audit, operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.
44. We note that internal audit were unable to complete their planned coverage in 2008/09, and the outstanding work has been re-scheduled. Whilst this delay did not affect the areas where we had planned to place reliance on their work, we are concerned that delays of this nature may impact on the overall control framework within NMS and increase risk exposure.

Prevention and detection of fraud and irregularities

45. NMS has adopted the relevant procedures and guidance contained in the Scottish Public Finance Manual. It has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.
46. There were no reported frauds in 2008/09.

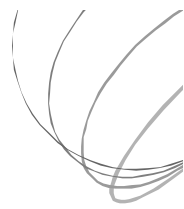


Performance

47. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
48. In this section we comment on:
- NMS's vision and strategic direction
 - performance
 - risk management
 - efficiency.

Vision and strategic direction

49. The principal functions of NMS as set out in Section 2(1) of the 1985 National Heritage (Scotland) Act, are to:
- a) care for, preserve and add to the objects in the national collections;
 - b) secure that the objects are exhibited to and interpreted for the public;
 - c) secure that the objects are available to persons seeking to inspect them in connection with study or research;
 - d) generally promote the public's awareness, appreciation and understanding of matters agricultural, archaeological, architectural, artistic, cultural, environmental, historical, industrial, military, scientific and social, both by means of the Board's collections and by such other means, including collaboration with other institutions, as they consider appropriate; and
 - e) provide education, instruction and advice and carry out research.
50. NMS updated its 2006-12 corporate plan in May 2009 identifying four key themes: the public, the collections, NMS people and resources. In 2008-09, NMS commenced work to link their contribution to the Government's overall purpose by aligning their corporate objectives and the four key themes to the Scottish Government document *Principles and Priorities; the Government's Programme for Scotland* which sets out legislative and policy priorities with the overall purpose 'to focus Government



and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth’.

51. Within each theme NMS has set objectives, actions designed to achieve objectives and performance measures and targets. Delivery of these targets will be particularly challenging given the tight financial constraints over the plan period. We will keep this area under review in future audits.

Performance overview

52. NMS's key performance targets are set out in Section 3 of the NMS Strategic Plan 2006-2012. The performance indicators are reported to each meeting of the Trustees and to the Scottish Government on a quarterly basis. During the year NMS exceeded the targets for visits to National Museums, overall satisfaction ratings of visits to museums, learning participation, loans for display, academic publications and the number of strategic partnerships in place. Outcome for the targets for web pages viewed and the percentage of collections' storage meeting appropriate standards, were marginally below target due to, respectively; a reduction in exhibitions as a result of the Royal Museum Project, and; a large but temporary increase in storage requirements, also as a consequence of the Royal Museum Project
53. As recorded in their annual report, NMS achieved a high degree of success in meeting corporate targets. The NMS Board regularly reviews performance against the corporate plan through quarterly performance reports. The reports are discussed in Board meetings and action taken and reported to resolve any issues.

Risk management

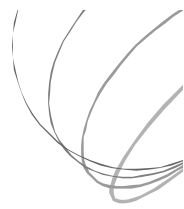
54. The Board is responsible for identifying, managing and reviewing corporate risks and the effectiveness of actions identified to control these risks. The Board has put in place robust systems for the identification and management of risk, which includes the establishment of a Risk Management Group with responsibility for overseeing risk management processes across NMS. The Audit Committee also reviews the risk register at each of its meetings as a standing agenda item.
55. The main risks affecting NMS relate to:
 - Weaknesses in arrangements for business continuity and disaster recovery arising from a critical failure of IT systems;
 - Delivery of the Royal Museum project on time and within budget, and in particular meeting internal funding targets for the project, and;
 - addressing a maintenance backlog of £16.3 million that poses a risk to the safety and security of its collections.



56. NMS has put measures in place to address these risks. It has prepared a Business Continuity Strategy and is currently working on a Business Continuity Plan with a target completion date of 30 September 2009. An executive committee with trustee representation is responsible for overseeing the specific risks associated with the Royal Museum project. NMS also has an estates strategy for the period to 2012 to help identify, prioritise and manage maintenance requirements. NMS is in discussion with the Scottish Government regarding funding to address these needs.

Efficiency

57. As part of the 2008-09 to 2010-11 Spending Review settlement, NMS was set a target to achieve cash-releasing efficiency savings of 6% in the form of reductions in Grant in Aid from the figures expected in both 2009-10 and 2010-11.
58. NMS has identified savings and budget restrictions of over £1.15 million as part of the budget process for 2008-09 and 2009-10 and it has to find an additional £0.06 million savings for 2010-11. A significant element of the anticipated savings will come from reductions in staff and operational costs. As staff costs represent around 64% of the cost base this will be difficult to achieve given that NMS expects an increase in running costs when the Royal Museum is reopened after completion of the current project. We will continue to monitor the financial position and the actions taken by NMS to manage the budget. There are no other specific efficiency targets set for NMS.



Looking Forward

59. NMS faces a number of challenges in 2009/10, which include:

- **Financial management and affordability** - The Scottish Parliament's Finance Committee recently published its report on the Scottish Government budget. The report noted that Scottish Government spending is set to decline in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to NMS achieving its financial targets within tighter funding settlements. We will consider NMS's financial management arrangements as part of our 2009/10 audit.
- **Delivering the Royal Museum Project** – Delivering a project of this nature and scale within budget and time, and achieving its internal funding target of £12 million for the project, is a major challenge for NMS given the current financial situation.
- **Efficiencies and future funding** - Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS). NMS will come under increasing pressure to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NMS is addressing this developing area as part of the 2009/10 audit.
- **Data Handling** – The Scottish Government carried out a review of data handling arrangements in Scotland during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A Scottish Government report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and improved security of sensitive information. NMS has made progress in dealing with information risk and further work is under way to finalise policies, procedures and staff training issues. We will monitor NMS's progress against recommendations due to be implemented during 2009/10.
- **Heritage Assets** –The Accounting Standards Board Financial Reporting Standard 30 on heritage assets has significant new disclosure requirements for reporting the content and value



of heritage assets. Although the new standard is not mandatory until 2010/11 NMS will need to carry out an early, preliminary evaluation of the standard and assess any impact on its accounts and reporting disclosures.