

National Galleries of Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

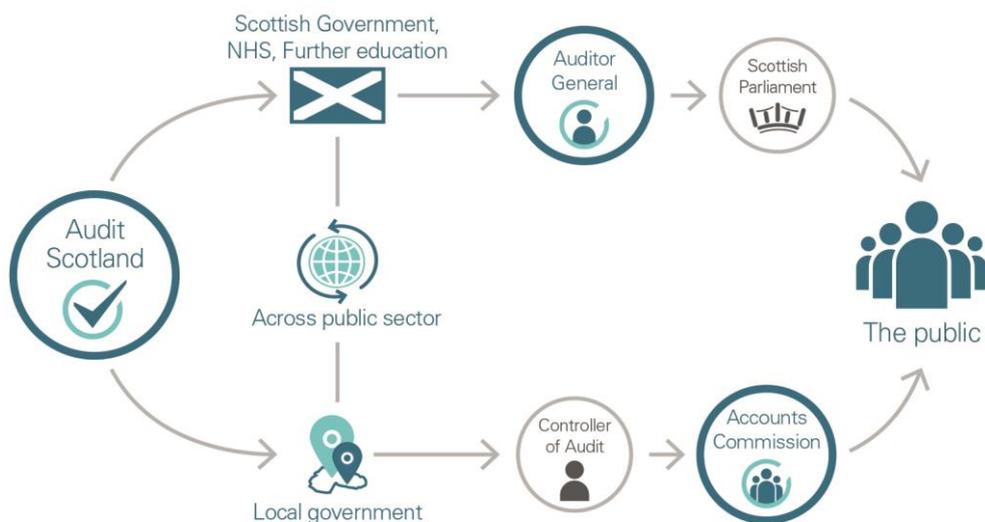
Prepared for the National Galleries of Scotland and the Auditor General for Scotland

September 2020

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

2019/20 Trustees' annual report and financial statements

- 1 National Galleries of Scotland's (NGS) financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 3 Due to the impact of Covid-19, the original audit timeline had to be revised. The draft Trustees' annual report and financial statements were received by us on 24th July 2020 in line with the revised deadline.

Financial management

- 4 NGS has appropriate and effective arrangements in place for financial management.
- 5 Systems of internal control operated effectively in 2019/20.

Financial sustainability

- 6 We concluded that NGS has appropriate and effective financial planning arrangements in place with the use of a high-level five-year financial plan which demonstrates good practice.
- 7 Due to Covid-19 and unexpected delays, expenditure on the SNG project was lower than anticipated in 2019/20. Significant capital expenditure is therefore planned for 2020/21 and 2021/22 as the project progresses. Despite delays the project is expected to be completed by 2022.

Governance and transparency

- 8 NGS has satisfactory governance arrangements in place that support the scrutiny of decisions. Management should continue to address the ICT issues as part of their preparations for Cyber Essentials.
- 9 NGS should continue to work towards improving transparency by updating the Board minutes that are made publicly available.
- 10 NGS adapted well to the move to home working due to Covid-19 and managed to maintain appropriate governance using online meetings.

Value for money

- 11 There is a well-developed performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered. A commitment to best value is embedded into the procurement process within NGS.

Introduction

1. This report summarises the findings from our 2019/20 audit of National Galleries of Scotland (referred to as NGS throughout this report).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 3rd March 2020 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of NGS's trustees' annual report and financial statements;
- our consideration of the wider audit dimensions of financial management, financial sustainability, governance and transparency, and value for money.

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NGS has had to respond to the Covid-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements. Aside from the revised audit timetable, we are pleased to note Covid-19 did not have a significant effect on the completion of our financial statements audit.

Adding value through the audit

4. We add value to NGS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations;
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides;
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help NGS promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. National Galleries of Scotland has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a Trustees' annual report and financial statements that are in accordance with the account's direction from Scottish Ministers. NGS are also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable them to successfully deliver their objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

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

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

11. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £23,310 as set out in our Annual Audit Plan, remains unchanged.

12. We are not aware of any relationships that could compromise our objectivity and independence.

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

14. We would like to thank management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 Trustees' annual report and financial statements



Main judgements

National Galleries of Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The other information in the trustees' annual report is consistent with the financial statements and prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Due to the impact of Covid-19 the original audit timetable had to be revised.

Our audit opinions on the Trustees' annual report and financial statements are unmodified

15. The Trustees' annual report and financial statements are the principal means of accounting for the stewardship of the NGS's resources and its performance in the use of those resources.

16. The Trustees' annual report and financial statements for the year ended 31 March 2020 were approved by the Board on 26th October 2020.

17. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- expenditure and income are regular and in accordance with applicable enactments and guidance;
- the information provided in the Trustees' Report and Governance Statement is consistent with the financial statements and properly prepared in accordance with legislation and guidance.

Impact of Covid-19 on the accounting framework

18. As a charitable body, NGS adheres to the SORP (FRS 102) accounting framework. No amendments to the SORP were required as a result of Covid-19. NGS's financial statements also comply with the Government Financial Reporting Manual (FReM). An addendum to the 2019/20 FReM was published in May 2020 to allow central government bodies to reduce narrative sections of their accounts, however management decided to produce a full report as in previous years.

Adjustments to the audit timetable

19. Due to the Covid-19 pandemic, the audit timeline had to be revised. We received the unaudited trustees' annual report and financial statements on 24th July

2020 (the Governance Statement was received on 31st July 2020), as part of the revised timetable agreed with management. The draft trustees' annual report and financial statements provided for audit were complete and of a good standard. All working papers were available electronically and the audit was completed remotely. Finance officers provided good support to the audit team which helped ensure the audit process ran smoothly.

Whole of Government Accounts (WGA)

20. In accordance with the WGA guidance we plan to complete and submit the required assurance statement to the National Audit Office (NAO) by the end of November 2020, after the approval and audit certification of the NGS trustees' annual report and financial statements.

Overall materiality is £3.56 million

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

22. On receipt of the draft trustees' annual report and financial statements we recalculated materiality levels and concluded that minor changes were required to our planned levels due to increases in asset values. This had no significant impact on our audit approach. See Exhibit 1 below for recalculated materiality levels.

Exhibit 1 Materiality values

	Planning Materiality	Revised Materiality
Overall materiality	£3.467 m	£3.560m
Performance materiality	£1.733 m	£1.780 m
Reporting threshold	£35 k	£35 k

Source: Annual Audit Plan 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the trustees' annual report and financial statements. It also summarises the work we have done to gain assurance over the outcome of these risks.

24. We have no issues to report from our work on the risks of material misstatement highlighted in our Annual Audit Plan. However, we have raised points relating to the wider dimension risks on Capital Projects (paragraph 36) and Financial Sustainability (paragraph 49).

Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We have no significant findings to report around the qualitative aspects. The significant findings are summarised in [Exhibit 2](#). Where a significant finding has resulted in a recommendation to management this has been cross referred to [Appendix 1](#).

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Fixed Asset Register Data Review</p> <p>During 2019/20, NGS removed £660,000 worth of fully depreciated assets from the fixed asset register as part of a data clean up. There was no documentation to support this approach to the clean-up and the descriptions on the asset register were vague and could not be matched to specific assets.</p> <p>As these assets were fully depreciated, there was no balance sheet impact.</p>	<p>We have discussed this with management, and they have noted that they began a process this year of clearing out historic additions from the asset register which they had no records for and were fully depreciated.</p> <p>We have agreed that the assets were correctly disposed of and that management should continue to review historic items on the asset registers and ensure these can be matched to specific assets</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>2. Financial Commitments under leases</p> <p>The disclosure for financial commitments under leases which is included in Note 19, only included the financial commitment for the next 12 months. This is the incorrect accounting treatment under FRS 102, where the total value of minimum lease payments should be disclosed. This increases the value of the Financial Commitments disclosed in note 19 by approximately £0.350m.</p> <p>This is a disclosure issue only and had no impact on the balance sheet.</p>	<p>We have discussed this with management, and they have agreed to amend the disclosure. We have reviewed the adjustments and are satisfied that these are correct.</p>
<p>3. Related parties – NGS Foundation</p> <p>The related parties note (Note 21) within the draft financial statements contained a disclosure that NGS recorded grant income of £2.5m from the NGS Foundation in 2019/20. We found that this disclosure should be £2.8m per the amounts recorded in the financial ledger.</p> <p>This is a disclosure issue only and had no impact on the income recorded in the Statement of Financial Activities.</p>	<p>We discussed this with management, and they agreed to amend the disclosure. We have reviewed the adjustments and are satisfied that these are correct.</p>

Evaluation of misstatements

26. There were no material adjustments to the draft trustees' annual report and financial statements arising from our audit.

27. There were three misstatements that exceeded our reporting threshold that were adjusted by management. The value of one adjustment was £0.350m which related to financial commitments under leases. The second misstatement related to NGS Foundation income disclosed in the related parties note being understated by £0.300m. The final misstatement related to capitalised staff costs being overstated by £0.065m within Note 6. These misstatements related to disclosures in the notes and had no impact on the financial statements.

Progress against prior year recommendations

28. NGS has made some progress in implementing our prior year audit recommendations. Four recommendations were made in 2018/19. Of these, three were fully actioned and one was not yet actioned. There are also 5 recommendations from years prior to 2018/19 which are also not yet fully implemented.

29. For the actions not yet implemented, a revised response and timescale has been agreed with management and is set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

NGS has effective arrangements in place for financial management.

Systems of internal control operated appropriately and effectively in 2019/20.

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

Financial performance in 2019/20

30. The main financial objective for NGS is to maintain an adequate financial outturn for the year, compared to the budget allocated by Scottish Ministers.

31. NGS has reported an outturn of £20.475 million (2018/19: £18.745 million) against its overall budget for 2019/20 of £20.475 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in Exhibit 3 below.

Exhibit 3 Performance against DEL in 2019/20

	Final budget £m	Outturn £m
Resource DEL	14.775	14.775
Capital DEL (including purchase grant)	5.700	5.700
Total DEL	20.475	20.475

Source: 2019/20 NGS trustees' annual report and financial statements

32. NGS also recognise other income of £11.480m (2018/19 - £11.767m) in the Statement of Financial Activities. This consists of donations, income from charitable activities and income from other trading activities. This is a decrease of 3% on the prior year. NGS's main source of income continues to be Grant in Aid funding from the Scottish Government which was £20.475m (66% of overall income) in 2019/20.

33. A large element of NGS's resource expenditure consists of staff costs, which amounted to around £13.6 million. Expenditure is split into the various activities, with Expenditure on Charitable Activities the most significant area of spend.

34. Overall, NGS remains in satisfactory financial health. The balance sheet shows what is owned and owed by NGS as at 31st March 2020. This currently shows net assets of £352.735m, an increase of £10.224m on the prior year. This increase is attributable to increases to tangible assets mainly as a result of indexation and additions to assets under construction.

Expenditure on Capital Projects

35. As reported in our Annual Audit Plan, NGS had initially budgeted to spend approximately £16.7m on Capital projects in 2019/20, with the vast majority of this attributable to the SNG project. Final capital spend for the year was only £10.2m due to unforeseen delays with the SNG project and the subsequent lockdown due to Covid-19. As a result, NGS have had to adjust their financial plans and now expect a realignment of capital expenditure on the SNG project in both 2020/21, and 2021/22.



Recommendation 2

Delays to the SNG project resulted in an underspend of approximately £6.5m against the original 2019/20 capital budget.

We recommend that NGS continue to closely monitor capital project spend going forward.

Budgetary processes are appropriate

36. We reviewed NGS's budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at Audit Committees we confirmed that senior management and trustees receive regular, timely and up to date financial information on the financial position. We concluded that NGS has effective budgetary processes that allow board members and officers to carry out effective scrutiny of finances.

Financial systems of internal control are operating effectively

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

38. During our interim audit work in March 2020 we began our review of key financial systems and assessed controls in the following areas: the general ledger, creditors, debtors, payroll, and cash & banking. This work was impacted by Covid-19 as we were unable to access the Galleries to collect hard copy evidence. This evidence was received in August 2020 once lockdown measures were eased and staff could access the office.

39. We confirmed our understanding of the key controls, carried out walkthroughs of each control and concluded that they are suitably designed to detect and/or prevent risk of material misstatement. No significant internal control weaknesses were identified during the audit which could affect the NGS's ability to record, process, summarise and report financial and other relevant data resulting in a material misstatement in the financial statements.

Internal audit arrangements are effective

40. The NGS's internal audit services are provided by Henderson Loggie. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. Their opinion provided in 2019/20 concluded: *In our opinion NGS has adequate and effective arrangements for risk management, control and governance. Proper arrangements are in place to promote and secure Value for Money. This opinion has been arrived at taking into consideration the work we have undertaken during 2019/20 and in previous years since our appointment in 2018.*¹

41. We completed a local review of internal audit arrangements for NGS and have concluded these arrangements to be satisfactory. We can confirm Henderson Loggie adhere to the PSIAS.

42. We considered internal audit reports and findings to provide assurance over the wider audit dimensions we comment on in this report. As our audit of the accounts is focused on substantive testing, we have not used the work of internal audit to support our opinion on the financial statements.

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

43. NGS is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that its affairs are managed in accordance with proper standards of conduct.

44. We have reviewed the arrangements and concluded that these are appropriate for the prevention and detection of fraud, error and irregularities, bribery and corruption.

45. There was one issue noted in the year. In December 2019 NGS was subject to a phishing attack. The result of this was that a salary payment was made to someone outside the organisation. The total value of this payment was immaterial. This was discovered by NGS and the proper procedures were followed, including reporting to the police. The fraudulent payment has not been recovered. We were advised that internal controls have been tightened as a result.

Arrangements for preventing fraud and corruption in the procurement function are appropriate

46. Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud and corruption. We carried out an assessment this year of the arrangements in place to prevent fraud and corruption in the NGS's procurement department. We requested that the procurement manager complete a self-evaluation checklist and provide supporting documents for their responses. We reviewed these supporting documents. Our findings are summarised as follows:

- NGS have an induction training programme in place for all staff involved in procurement activity. Refresher training is carried out every 2 years in line with the requirements of the Bribery Act 2010. A training log is maintained by the procurement manager to track this.
- NGS have a dedicated suite of policies and procedures in place in relation to procurement activity. NGS staff who attend the induction and refresher

¹ National Galleries of Scotland, Henderson Loggie Internal Audit Annual Report 2019-20, May 2020

training are required to sign a declaration noting that they have familiarised themselves with the relevant policies and procedures. The procurement procedures are detailed and easy to follow, with a focus on achieving best value. As noted in our recommendations, several policies are currently under review and require to be updated.

- NGS carry out reviews of contract spend on a quarterly basis and an annual analysis on spend after the end of each financial year.
- NGS have committed to producing an annual procurement report for 2019/20, even though this is not required as they fall below the £5m reporting threshold set by the Scottish Government. This would be considered as an example of best practice.

Part 3

Financial sustainability



Main judgements

NGS has approved its 2020/21 budget and prepared budget forecasts up to financial year 2024/25. NGS has revised these forecasts since the Covid-19 outbreak and included scenario planning.

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.

Financial Planning

47. NGS presented its 2020/21 budget at the Board meeting in March 2020. The budget sets out the following:

- The 2020/21 draft budget presented grant-in-aid (GIA) of £15.445 million which is £0.670 million (5%) more than the 2019/20 budget allocation.
- There is a further £4.695m of non-GIA revenue income, including self-generated income, grant income, exhibition income and trading company income. The 2020/21 budget shows a challenging position reflecting the impact of financial pressures.

48. Capital GIA has decreased by £0.5m to £5.2m. In addition, £11.7m of external funding is budgeted for the SNG capital project. Existing financial plans have been revised following the impact of the Covid-19 pandemic

49. A Covid-19 Budget Analysis was presented to the June 2020 meeting of the Audit and Risk Committee. This has considered the potential financial impact that the Covid-19 crises could have on the 2020/21 budget. NGS is forecast to lose income and incur additional expenditure, which could result in a budget deficit. NGS have taken several cost saving measures to mitigate the consequences noted above and have utilised the Coronavirus Job Retention Scheme (CJRS). NGS's wholly owned subsidiary is also facing similar financial pressures, with NGS extending the loan facility to the trading company by £0.6m, from £0.8m up to £1.4m in August 2020.

50. The above has resulted in a revised financial position for 2020/21. NGS have devised a 'best case' and 'worst case' scenario for the coming year. NGS is in discussion with the Scottish Government regarding a potential uplift to their Grant in Aid for 2020/21 to cover any deficit.

51. In the longer term, beyond 2020/21, NGS have included high-level estimates on the potential impact of Covid-19 and will continue to review these going forward. NGS have made good progress in estimating the potential impact of Covid-19 in the short and medium term, and they should continue this work going forward.



Recommendation 3

NGS have made good progress in estimating the impact of Covid-19 on their financial position.

We recommend that NGS continue to monitor the impact of Covid-19 and revise and update its existing financial plans as necessary.

Part 4

Governance and transparency



Main judgements

NGS has effective governance arrangements in place.

NGS has had to adapt its governance and working arrangements as a result of Covid-19. We consider the changes to be appropriate.

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.

Overall governance and transparency arrangements were appropriate

53. The National Galleries of Scotland Act 1906, as amended by the National Heritage (Scotland) Act 1985, is the enabling legislation for NGS.

54. The Accountable officer is Sir John Leighton, Director-General. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Leadership team.

55. NGS had 12 trustees on its board during 2019/20. The board has five sub-committees, including the Audit and Risk Committee. Two new trustees were appointed in March 2020.

56. From attendance at Audit and Risk Committee meetings, and review of board papers, we consider that papers are well prepared, and provided in sufficient time for review and consideration by trustees. We conclude that trustees provide a good level of challenge to management, which demonstrates effective scrutiny.

57. As noted in our 2017/18 Annual Audit Report, no training is offered to trustees after the initial on-board training as part of their induction. This has not been progressed in 2019/20 due to the Covid-19 pandemic. Training on Risk Management had been arranged however this had to be postponed due to the shutdown of the Galleries. We recommend that NGS should consider offering further training to its trustees to ensure they are kept up to date on current issues.



Refer to Appendix 1, recommendation b/f 8

The Covid-19 pandemic has affected governance and working arrangements

58. The galleries closed to the public at the end of March 2020. Since then, NGS has had most staff working from home. This has included use of online teleconferences to ensure board and committee meetings still take place remotely in order to maintain good governance.

59. We noted the steps taken to allow NGS's staff to prioritise their response to the outbreak and adapt their working practises – home working was significantly expanded, and online applications were utilised to allow staff to continue to work and communicate. NGS have updated their policies on remote working and sickness absence as a result of the shift to home working.

60. NGS began a phased re-opening of the galleries in mid-August 2020 in line with Scottish Government's advice and guidelines. NGS devised a detailed re-opening plan, including risk assessments, which was presented to the Audit & Risk Committee in July 2020.

61. We conclude that appropriate arrangements were put in place by management to continue to support good governance and accountability.

Openness and transparency

62. There continues to be an increasing focus on demonstrating the best use of public money. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

63. In our 2017/18 and 2018/19 Annual Audit Reports we reported that NGS publishes heavily redacted board minutes on its website. It does not publish any other board or committee minutes or papers on its website. NGS Board and committee meetings are held in private. In January 2020 a paper was taken to the board regarding transparency and it was agreed that the minutes that are made publicly available would contain less redacted information. At the time of writing the minutes on the website have not been updated since March 2018. In discussions with management, this will be updated over the coming months.



Refer to Appendix 1, recommendation b/f 9

Cyber security

64. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate.

65. In 2017/18 and 2018/19 we reported NGS was working towards the Cyber Essentials accreditation and were addressing actions raised by internal audit in 2016/17.

66. During 2019/20 further progress has been made. In February 2020 NGS implemented a new vulnerability scanning service. This has raised several high impact areas which will require further work. Internal Audit also carried out a review of Cyber Security. This audit was given a 'satisfactory' rating overall but highlighted a number of areas which required further improvement. There have been regular IT

reports presented to the audit committee, showing that they are aware of the situation and the improvements that are required.

67. The closure of the Galleries in March 2020 has delayed the ongoing IT improvements as the infrastructure-based improvements require direct access to the site, which was not possible. There was also an increased focus on business continuity, given the move to home working. It should be noted that NGS's transition to working from home went smoothly, which is due to the amount of time and investment NGS have spent upgrading their infrastructure over the last 4 years. In the latest progress report in June 2020, it was estimated that it will take NGS 3 to 6 months to achieve the Cyber Essentials accreditation once the galleries are fully reopened.



Refer to Appendix 1, recommendation b/f 6

Part 5

Value for money



Main judgements

NGS has a well-developed performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered

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

NGS has satisfactory best value arrangements and good performance reporting in place

68. *Ministerial guidance to Accountable Officers* for public bodies and the *Scottish Public Finance Manual* (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

Performance Management

69. The performance of NGS is monitored by the Board of Trustees and the Audit and Risk Committee against several performance targets which support the delivery of the Scottish Government's national performance framework. These targets and their plans are set out in NGS's 2019-2023 Strategic Plan.

70. The board is kept well informed of performance across all areas of activity. Responsibility for detailed review and scrutiny of performance lies with the Audit and Risk Committee. We attend Audit and Risk Committee meetings and review papers to gain an insight into how well performance is scrutinised.

71. At each meeting of the Audit and Risk Committee, management present a financial and non-financial performance report. Performance is reported using a traffic light system covering NGS's key indicators. Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

72. For 2019/20, the KPIs in relation to visitor numbers fell short of their targets, in part due to the SNG project works and extended closure of the Gardens. Visitor satisfaction levels also dropped from 2018/19 levels, again this is attributed to the ongoing works on the SNG. NGS increased web traffic figures, although fell short of their target for the year. Participation in the education programme and engagement through social media was good in 2019/20 with targets being exceeded.

73. Having reviewed the reporting to the Audit and Risk Committee and the Board we have concluded that NGS 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.

National performance audit reports

74. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which may be of interest to NGS. These are outlined in [Appendix 3](#).

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Fixed Asset Register Data Review</p> <p>During 2019/20, National Galleries removed £660,000 worth of fully depreciated assets from the fixed asset register. There was no documentation to support the removal of these and the descriptions on the asset register were vague and could not be matched to specific assets.</p> <p>As these assets were fully depreciated, there was no balance sheet impact.</p> <p>Risk – There is a risk that NGS has assets included within the fixed asset register which are not supported by appropriate documentation.</p>	<p>NGS began a process of reviewing their fixed asset register to ensure that all assets are identifiable and are supported by appropriate documentation.</p> <p>We recommend that NGS continue this review to ensure all assets on the fixed asset register to ensure these can be matched to specific assets and are supported by appropriate documentation.</p>	<p>NGS will continue the review during 2020/21. A report will be prepared for ARC discussing the outcome with a request for formal approval of the data changes.</p> <p>Responsible officer: Valerie Urquhart, Finance Director</p> <p>Target date: March 2021</p>
2	<p>Capital Projects</p> <p>Delays to the SNG project resulted in significant underspends against the 2019/20 capital budget.</p> <p>As a result of this NGS have had to re-profile the capital expenditure.</p> <p>Risk – There is a risk that further delays to the SNG project could lead to increased project costs in future years.</p>	<p>We recommend that NGS continue to closely monitor capital spend on the SNG project going forward.</p>	<p>NGS is continuing to monitor the capital expenditure on the SNG project closely.</p> <p>Responsible officer: Bryan Robertson, COO</p> <p>Agreed date: Ongoing to project completion</p>
3	<p>Financial Sustainability</p> <p>Due to the impact of Covid-19, NGS are forecasting significant financial pressures in 2020/21 and beyond.</p>	<p>NGS have already made progress in adjusting forecasts to take account of the impact of Covid-19.</p> <p>We recommend that NGS continue to review these</p>	<p>NGS is continuing to consider the impact of Covid-19 and will review and adjust financial plans as necessary going forward</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>This is exacerbated by the financial difficulty being faced by the NGS Trading Company.</p> <p>Risk – There is a risk that NGS will not be able to achieve a breakeven position for 2020/21.</p>	forecasts going forward so that they can take account of any future financial impact arising from Covid-19.	<p>Responsible officer: Valerie Urquhart, Finance Director</p> <p>Agreed date: Ongoing.</p>
Follow up of recommendations from 2018/19			
b/f 1	<p>Donated Heritage Asset Acquisition</p> <p>A donated asset was capitalised at the wrong amount. The asset should have been recognised at £2.500m however NGS capitalised this at £3.067m.</p> <p>The effect of this was Heritage Assets and Income from Donations were overstated by £0.567m.</p> <p>Management adjusted the Accounts to recognise the donated asset at the correct value. We reviewed the adjustment and confirmed that this has been processed correctly.</p>	Management should review the process of adding assets to the Heritage assets to ensure these are added at the correct value.	<p>Fully Actioned</p> <p>We have completed a review of Heritage Asset additions and performed detailed testing.</p> <p>No issues were identified.</p>
b/f 2	<p>Heritage Asset Register</p> <p>During 2018/19, our early testing identified an asset that had been accounted for twice in two different financial years.</p> <p>This asset was recorded with two different asset numbers and this resulted in Heritage Assets being overstated by £0.750m.</p> <p>There is a risk that heritage assets are overstated.</p>	Management should review the heritage asset register to ensure there are no duplicate assets recorded.	<p>Fully Actioned</p> <p>We have identified no issues with duplicate assets in our testing in 2019/20.</p> <p>We carried out completeness and existence testing on the heritage asset register. No issues were identified.</p>
b/f 3	<p>Heritage Asset disclosure</p> <p>The Heritage Asset disclosure is not fully compliant with the SORP requirements.</p> <p>SORP para 18.20 states "when heritage assets are</p>	Management should split the heritage asset note in line with SORP requirements to show different classes of assets and to show whether these are held at cost or valuation.	<p>Fully Actioned</p> <p>NGS have now disclosed the split between Artworks at Cost and Valuation.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><i>recognised on the balance sheet, a charity must provide an analysis, in the notes to the accounts, of those classes or groups of heritage assets reported at cost and those reported at valuation."</i></p> <p>NGS has not shown different classes or groups of heritage assets and has not split the total of capitalised heritage assets by value or cost.</p>		
b/f 4	<p>NFI</p> <p>NGS are committed to the NFI exercise. However, the Fraud Policy does not make reference to this.</p>	<p>The Fraud Policy is due to be reviewed in 2019/20. We recommend that management embed the NFI exercise within the Fraud Policy and uses it as a source of assurance in its anti-fraud measures.</p>	<p>Not actioned</p> <p>This policy is still under review and has not yet been updated.</p> <p>Revised date: 31 December 2020</p>
Follow up of recommendations from 2017/18			
b/f 5	<p>Risk Management</p> <p>Internal audit identified scope for improvement in risk management arrangements.</p>	<p>NGS should develop its risk management procedures in further detail, including</p> <ul style="list-style-type: none"> • further detail in the risk management guidelines, • risk management training for managers • management to consider how assurance is obtained in relation to the risks identified. • NGS to consider risk appetite. 	<p>Partly Actioned</p> <p>NGS have engaged their internal auditors, Henderson Loggie, to provide Risk management training, to aid in this work. However, this was delayed due to Covid-19 and the shutdown of the Galleries. This will be carried by the end of the year.</p> <p>Revised date: 31 March 2021</p>
b/f 6	<p>ICT and Business Continuity Review</p> <p>Internal audit did a follow-up of ICT and Business Continuity during 2017/18. They identified that progress had been made, but a number of issues remain outstanding.</p> <p>NGS needs to address these issues as part of their aim to achieve Cyber Essentials accreditation from the Scottish Government.</p>	<p>NGS should continue to address the issues raised by internal audit review of ICT and business continuity management, including a full disaster recovery test. This will allow NGS to work towards Cyber Essentials accreditation</p>	<p>Partly Actioned</p> <p>Progress has been made to address the issues identified by Internal Audit in 2016/17. However, a number of issues are still in progress and require to be completed.</p> <p>NGS have begun to carry out monthly scanning of their systems and during 2019/20 have continued to upgrade their systems including a move to cloud based infrastructure.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>NGS aims to achieve Cyber Essential Plus accreditation by December 2020</p> <p>Revised date: 31 December 2020</p>

Follow up of recommendations from 2016/17

b/f 7	<p>Training for Trustees</p> <p>NGS does not routinely offer training to its trustees after their initial induction. Training is useful to assist trustees in understanding their role and responsibilities.</p>	<p>NGS should offer training to its trustees to assist them in fulfilling their role. This is particularly important when trustees join new committees. The need for training should be considered as part of trustees' annual appraisals.</p>	<p>Not Actioned</p> <p>Training on Risk management had been arranged but has been postponed due to Covid-19. No other training has yet been arranged.</p> <p>Revised date: 31 March 2021</p>
b/f 8	<p>Review of Policies and Procedures</p> <p>During our audit, we identified that two of NGS's policies and procedures have not been reviewed for some time.</p> <p>There is a risk that these policies are no longer fit for purpose.</p>	<p>NGS should review its policies and procedures regularly, ideally annually, to ensure they are fit for purpose.</p>	<p>Partially Actioned</p> <p>There has been some progress on this since the prior year. The conflicts of interest policy has been revised and several other policies are currently under review however these have yet to be finalised. Review not completed due to other priorities during Covid period. Will be picked up over the next 4-6 months.</p> <p>Revised date: 31 March 2021</p>
b/f 9	<p>Transparency</p> <p>NGS publishes heavily redacted board minutes on its website. It does not publish any other board or committee papers or minutes on its website. NGS does not have a documented rationale for this approach.</p>	<p>NGS should keep this area under review and consider whether there is scope to enhance transparency. This could include publishing board and committee papers online.</p>	<p>Partially Actioned</p> <p>A paper was taken to the board in January 2020 where it was agreed that the minutes that are made publicly available would contain less redacted information.</p> <p>The minutes on the website have not been updated since March 2018. This will be updated in the coming months.</p> <p>Revised date: 30 September 2020</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.

(Include any additional audit risks communicated to those charged with governance arising from COVID-19)

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Although we have not identified any specific risks of management override of controls at NGS, auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit.</p> <p>This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and accounting policies.</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 tested a sample of journals. No issues were identified.</p> <p>We reviewed management's estimates. No issues identified.</p> <p>We tested a sample of accruals and prepayments. No issues were identified.</p> <p>No issues of management override identified.</p>
<p>2 Risk of material misstatement caused by fraud in income and expenditure recognition</p> <p>NGS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative data matches.</p>	<p>No issues were identified from our testing of income and expenditure transactions.</p> <p>NGS have engaged with the NFI process and followed up all matched.</p> <p>No issues identified in relation to fraud over income and expenditure</p> <p>There was a fraudulent salary payment made due to NGS being the victim of a phishing attack. See paragraph 46</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Estimations and Judgements There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, liabilities (provisions, deferred income and accruals) and donated heritage asset additions. This includes the planned capital additions comprising the extension at the Scottish National Gallery and the National Collection Facility. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Focused substantive testing during the financial statements audit of key areas.</p> <p>Substantive testing of liabilities and cut-off testing of income and expenditure</p> <p>Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</p> <p>Assessment of indexation factors applied to fixed assets to ensure these are from a reliable source.</p>	<p>No issues were identified from our cut-off testing in relation to income and expenditure.</p> <p>No issues were identified from our review of accounting policies.</p> <p>No issues were identified from our substantive testing of Indexation applied to land and buildings.</p>
<p>4 Financial sustainability NGS, similar to other public sector bodies, face challenges and uncertainty over future funding allocations. Although NGS are forecasting a break-even position for 2019/20, the organisation continues to face a risk over its financial sustainability in the coming years due to uncertainty over future funding allocations and income sources.</p>	<p>Discussions with senior finance staff regarding budget plans and finance reports.</p> <p>Review of NGS financial plans and budgets.</p> <p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>We have discussed financial sustainability and ongoing financial pressures with management and reviewed budgets and forecasts for 2020/21 and beyond.</p> <p>No issues were identified with cut-off testing of income and expenditure.</p> <p>We have made a recommendation with regards to budget monitoring going forward. See Appendix 1, Recommendation 3.</p>
<p>5 Capital Projects NGS have a number of ongoing major capital projects, including the Scottish National Gallery project. There have been some minor delays to capital projects in previous years. There is currently £16.7m budgeted to be spent on capital projects in 2019/20.</p> <p>There is a risk that any potential delays would lead to increased costs for NGS.</p>	<p>Discussions with senior finance staff regarding budget plans and finance reports.</p> <p>Ongoing monitoring of budgets and finance reports presented to the Board and Audit & Risk Committee.</p> <p>Year-end testing on capital spending.</p>	<p>No issues were identified in relation to testing on capital expenditure.</p> <p>Actual capital spend was approximately £10.2m in 19/20, which is £6.5m lower than initially budgeted.</p> <p>We have made a recommendation with regards to monitoring capital spend. See Appendix 1, Recommendation 2.</p>

Appendix 3

Summary of national performance reports 2019/20



**2019/20
Reports**

		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

National Galleries of Scotland

2019/20 Annual Audit Report

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