

National Galleries of Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for National Galleries of Scotland
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of National Galleries of Scotland. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the Annual Report and Financial Statements including the Trustees' Annual Report and Governance Statement
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Whole of Government Accounts (WGA) return
- review National Galleries of Scotland's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to National Galleries of Scotland through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help National Galleries of Scotland promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and National Galleries of Scotland

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and National Galleries of Scotland. Key responsibilities are summarised below.

Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

National Galleries of Scotland's responsibilities

8. National Galleries of Scotland is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, National Galleries of Scotland has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for National Galleries of Scotland are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for National Galleries of Scotland

Materiality	Amount	Group
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross assets for the year ended 31 March based on the latest audited financial statements for 2020/21. We have used gross assets as the basis for calculating materiality as a primary function of National Galleries of Scotland is to operate as a custodian of public assets. This treatment is in line with ISA 320 and Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom.</p>	£3.782 million	£3.782 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 50% of planning materiality.</p>	£1.891 million	£1.891 million

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality (rounded). We have ensured this threshold is reasonable to allow appropriate testing of income and expenditure items.

£40
thousand £40
thousand

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of National Galleries of Scotland, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2**2021/22 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>Although we have not identified any specific risks of management override of controls relating to NGS, Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings.</p> <p>National Galleries of Scotland held land and buildings with a NBV of £118.8 million as at 31 March 2021, with land and buildings revaluated on a five-year rolling basis. An external valuer carries out valuations of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings, specifically in respect of those assets impacted by the SNG project. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>External valuation of land & buildings by professional expert</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management’s involvement in the valuation process to assess if appropriate oversight has occurred. • Critically assess the approach National Galleries of Scotland has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Test the reconciliation between the financial ledger and the property asset register. • Critically assess the adequacy of the National Galleries of Scotland disclosures regarding the assumptions in relation to the valuation of land and buildings.

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor’s responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have rebutted this risk for National Galleries of Scotland because, whilst the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of National Galleries of Scotland’s revenue streams.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for National Galleries of Scotland because whilst the possibility of fraud exists, we do not judge it to be a significant risk due to the nature of National Galleries of Scotland’s expenditure.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we considered whether there were any other areas where we consider there are also risks of material misstatement to the financial statements. No other areas of audit focus have been identified. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Group Consideration

19. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

20. National Galleries of Scotland has a group which comprises one subsidiary, the trading company. The audit of the financial information of this component is performed by another auditor. We plan to place reliance on the work of the component auditor. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit risk assessment process

21. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

22. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

23. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

Exhibit 3

Audit dimensions



Source: Code of Audit Practice

24. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium / longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Governance and transparency** – governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Duty of Best Value

25. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within National Galleries of Scotland.

Audit dimension risks

26. We have identified audit risks in the areas set out in [Exhibit 4](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 4

2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial management – Capital projects</p> <p>In our 2020/21 Annual Audit report we reported that the Scottish National Gallery (SNG) project has been delayed due to the complex nature of the site and the impact of the Covid-19 pandemic.</p>	<ul style="list-style-type: none"> • Effective budget monitoring by management and Major Capital Programme Committee • Detailed monitoring of capital project spend and funding forecasts which are reported to the Board and Audit & Risk Committee. • Ongoing communication with key funders of capital projects. 	<ul style="list-style-type: none"> • Discussions with senior finance staff regarding budget plans and finance reports. • Ongoing monitoring of budgeting and finance reports presented to the Board, Audit & Risk Committee and Major Capital Programme Committee. • Year-end testing on capital expenditure and classification of assets under construction. • Report findings in our Annual Audit Report

Description of risk	Sources of assurance	Planned audit response
<p>National Galleries of Scotland are currently reviewing the timeline, forecast costs and additional funding requirements for the SNG project as a consequence of the delays experienced.</p>		
<p>2. Financial sustainability</p> <p>National Galleries of Scotland, like other public sector bodies, are facing challenges to their financial sustainability. Although, National Galleries of Scotland are forecasting a break-even position for 2021/22, the organisation continues to face risks over its financial sustainability in the coming years due to uncertainty over future funding allocations and the continuing recovery following the Covid-19 pandemic.</p>	<ul style="list-style-type: none"> • Effective budget monitoring by finance team. • Frequent re-forecasting of budgets. • Regular financial reporting to the Board and Audit & Risk Committee. • Ongoing communication with Scottish Government sponsor division. 	<ul style="list-style-type: none"> • Discussions with senior finance staff regarding budget plans and finance reports. • Review of financial plans and budgets. • Focussed cut off testing at year-end to confirm income and expenditure has been accounted for in the correct financial year.

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

28. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

29. We will provide an independent auditor's report to National Galleries of Scotland, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the National Galleries of Scotland and the Auditor General for with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

30. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by Audit Scotland's deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 5 2020/21 Audit outputs

Audit Output	Latest date	Audit and Risk Committee Date
Annual Audit Plan	28 February 2022	01 March 2022
Independent Auditor's Report	31 October 2022	30 August 2022
Annual Audit Report	31 October 2022	30 August 2022

Source: Audit Scotland

Timetable

31. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

32. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

33. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	24 June 2022
Latest date for final clearance meeting with the Finance Director	12 August 2022
Agreement of audited and unsigned financial statements, issue of draft Annual Audit Report and accounts	23 August 2022
Issue of Annual Audit Report, Letter of Management Representation and Proposed Independent Auditor's Report to those charged with governance.	23 August 2022
Presentation of our Annual Audit Report to the Audit & Risk Committee	30 August 2022
Approval of the National Galleries of Scotland Annual Report and Financial Statements by the Board, Independent Auditor's Report signed electronically	12 September 2022

Source: Audit Scotland

Audit fee

34. The audit fee for the 2021/22 audit of National Galleries of Scotland is £24,340 (2020/21: £23,880). In determining the audit fee, we have taken account of the risk exposure of the National Galleries of Scotland, the planned management assurances in place and the level and quality of the work of internal audit.

35. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Other matters

Internal audit

36. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

37. Internal audit for National Galleries of Scotland is provided by Henderson Loggie. As part of our planning process, we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Our review found that Henderson Loggie operates in accordance with PSIAS requirements.

38. From our initial review of the internal audit plans, we do not plan to use internal audit's work for our financial statements' responsibilities. We intend to review the findings of all internal audit reviews which will help inform our wider dimension audit.

Independence and objectivity

39. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

40. The engagement lead (i.e. appointed auditor) for National Galleries of Scotland is Asif A Haseeb OBE. Auditing and ethical standards require the

appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of National Galleries of Scotland.

Quality control

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

42. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

43. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

National Galleries of Scotland

Draft Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk