

# National Museums Scotland

Annual Report on the 2007/08 Audit



September 2008



# National Museums Scotland

**Draft Report on the 2007/08 Audit**

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# Executive Summary

## Introduction

In 2007/08 we looked at the key strategic and financial risks faced by National Museums Scotland (NMS). We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

## Financial Position

NMS met its key financial target of operating within the budget limits set by the Scottish Government for operating and capital expenditure, i.e. £26.954 million and £5.810 million respectively. Over the year, its net asset position increased by £20.298 million to £186.948 million, due mainly to annual indexed property revaluations and capital works on the Royal Museum project.

The Scottish Government set a resource budget for NMS of £33.725 million for 2008/09, comprising an operating budget of £27.754 million and a capital budget of £5.971 million. Working within budget represents a significant challenge to NMS given the need to make efficiency savings of 2% per annum over the next three years.

## Financial Statements

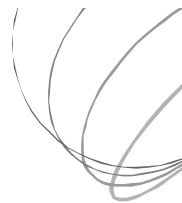
We have given an unqualified opinion on the financial statements of NMS for 2007/08.

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.

## Performance

NMS achieved its cash-releasing efficiency target of £0.200 million set by the Scottish Government over the three year period ending 31 March 2008. Future efficiency savings are set at 2% per annum for the next three years commencing 2008/09 as part of the budget settlement from the Scottish Government. Almost half of these future savings are expected in the first year, which is a significant challenge given wider budget constraints and spending priorities.

NMS met four of the five agreed performance targets set by the Scottish Government, including the cash-releasing targets referred above. The exception related to loans from the collections to third parties, which were less than target due to restrictions being brought in on the number of loans as a result of the resources required for the Royal Museum project.



## **Best Value**

NMS continues to develop formal policies and procedures to evidence its application of Best Value principles across its activities. We will monitor progress in this area during 2008/09.

## **Governance**

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall 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.

## **Looking forward**

The final part of our report notes some key risk areas and challenges for NMS going forward. We highlight a number of national issues which affect all public sector bodies including NMS, such as the National Performance Framework and the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangements in public bodies across Scotland.

NMS also faces financial pressure over the next three years to maintain operational effectiveness against a background of tighter funding constraints. Other specific risks affecting NMS include: delivering the Royal Museum project within timetable and budget, and in particular meeting the NMS funding target for its share of the costs; and financing the maintenance backlog of £16.8 million.

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

**Audit Scotland**  
**September 2008**



# Introduction

1. This report summarises the findings from our 2007/08 audit of NMS. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 14 March 2008. 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. Appendix A of this report sets out the key issues highlighted in this report and the action planned by management to address them.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and 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, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Financial Position

4. In this section we summarise key outcomes from our audit of NMS financial statements for 2007/08, and comment on the key financial management and 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

5. 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 Remuneration Report, with the financial statements; and
  - the regularity of the expenditure and receipts.
6. We also review the Statement on Internal Control by:
  - considering the adequacy of the process put in place by the chief executive as accountable officer to obtain assurances on systems of internal control, and
  - assessing whether disclosures in the statement are consistent with our knowledge of NMS.

## Overall conclusion

7. We have given an unqualified opinion on the financial statements of NMS for 2007/08.
8. As agreed the unaudited accounts were provided to us on 16 June 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from NMS staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 11 August 2008 as planned.



## Financial Position

### Outturn 2007/08

9. The final grant in aid set by the Scottish Government for NMS during 2007/08 totalled £32.764 million, comprising an operating cash budget of £20.278 million, non-cash items of £6.676 million and a capital budget of £5.810 million. These figures include in-year adjustments to the capital budget of £2.7 million net. The capital budget included specific amounts of £0.510 million to fund additions to NMS collections and £0.2 million to the National Fund for Acquisition which NMS administers on behalf of third parties. NMS operated within the overall budget limits set by the Scottish Government and drew down its full cash grant-in-aid entitlement of £26.088 million.
10. The Government Financial Reporting Manual (FREM) requirement to account for grant-in-aid as a credit to reserves rather than as income has resulted in NMS reporting an operating deficit for the year of £28.673 million (2006/07: £18.880 million). The operating grant-in-aid credited to reserves in the year was £20.278 million (2006/07: £23.737 million).
11. NMS consolidated balance sheet at 31 March 2008 showed net assets of £186.948 million (2006/07: £166.650 million). Over the year, its net asset position increased by £20.298 million, due mainly to annual indexed property revaluations and capital works in respect of the Royal Museum Project. Current assets increased to £7.618 million (2006/07: £5.098 million) due to increases in cash and debtor balances of £1.302 million and £1.280 million respectively, and a reduction in stock of £61,000. The year-end creditor balance also increased by £1.382 million to £3.415 million.

### 2008/09 Budget

12. The Scottish Government has set a total grant in aid for NMS of £33.725 million for 2008/09, summarised as follows:

**Exhibit 1 – 2008/09 Resource Budget**

Grant in aid budget head	Budget
	£million
Running costs	21.078
Capital charges – non-cash	6.676
Capital	5.261
Purchase grant	0.710
<b>Total</b>	<b>33.725</b>

13. Over the next three years NMS has been set a cash efficiency saving target of 2% per annum by the Scottish Government. Achieving these savings whilst continuing to grow and improve the business represents a significant challenge given inflationary pressures and the wider funding constraints applying across the public sector.



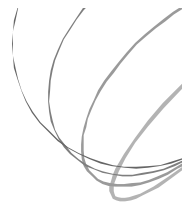


## Issues arising from the audit

14. As required by auditing standards, we reported to the Audit Committee on 11 August 2008 the main issues arising from our audit of the financial statements. These and other issues have been discussed with NMS management and are set out in an agreed Action Plan at Appendix A.
15. Particular issues that we would draw to your attention include;
16. **Revised Management Statement / Financial Memorandum** – Departmental Accountable Officers are responsible for putting in place an appropriate framework for sponsored bodies consistent with the model Management Statement & Financial Memorandum (MS/FM) set out in the Scottish Public Finance Manual (SPFM).
17. The Management Statement sets out the broad framework within which a body will operate while the Financial Memorandum sets out certain aspects of the financial framework in greater detail. The MS & FM is effectively a control contract between the Scottish Government and sponsored bodies; although the SPFM makes clear that it is an internal document that does not have any legal authority.
18. The SPFM requires that the MS & FM are reviewed and updated periodically by the sponsor Directorate within the Scottish Government, normally at least every 2-3 years. The MS & FM for NMS have not been revised since February 1993 and include a number of outdated provisions, including many references that have been overtaken by the introduction of resource accounting and the impact of devolution. A revised MS & FM were drafted around a year ago but have not yet been issued by the sponsor Directorate.
19. Whilst NMS is operating within the over-arching framework of authorities contained within the SPFM, we found that there were inconsistencies between the existing MS & FM and the SPFM in several key areas, particularly in relation to carry forward of cash balances, the operation of commercial bank accounts and the quantification and management of grant in aid (see paragraph 19 below). We recommend that NMS agree a revised MS & FM with its sponsor Directorate as a matter of priority.

### ***Refer action plan no. 1***

20. **Managing grant-in-aid and cash resources** – Once grant-in-aid has been paid over to sponsored bodies there is no requirement for any unspent balances at year end to be surrendered to the Scottish Government. However, there is an overriding requirement in the SPFM that grant-in-aid should not be paid in advance of need in order to minimise public sector borrowing requirements. This requires

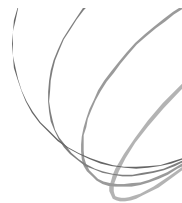


close liaison between sponsored bodies and the Scottish Government on funding needs, and sound financial management within the sponsored body on defining those needs.

21. We noted that the level of grant in aid drawn down by NMS from the Scottish Government during 2007/08 could have been significantly reduced through a combination of utilising other available funding sources, particularly those relating to the Royal Museum Project (RMP), and stricter cash management controls.
22. Normally, the MS & FM set out guidance on how grant-in-aid funding is quantified and managed, with particular reference to identifying those monies that can be retained by the sponsored body without being included in grant-in-aid calculations. However, the current MS & FM between the Scottish Government and NMS are too out of date to be considered a reliable reference for determining compliance with best practice requirements in this area. There is a need for the revised MS & FM to set out clear guidance on key areas relating to grant-in-aid and cash management, including:
  - how grant-in-aid is quantified, including the treatment of bank interest;
  - the extent to which grant-in-aid should be drawn down having regard to the availability of alternative funding sources;
  - the specific funds that NMS can retain for their own use outside the grant-in-aid calculation (such as donations, if relevant);
  - the level of acceptable cash balances that NMS can carry forward at the year end;
  - whether NMS can operate a commercial bank account as its main banker instead of an OPG bank account.

***Refer action plan no. 2***

23. **Funding of the Royal Museum Project (RMP)** – The RMP is estimated to cost circa £47 million and is funded on a tripartite basis by the Heritage Lottery Fund (37%), grant-in-aid (35%) and specific fund raising activities by NMS (28%). The NMS share of costs, collected through fundraising activities, is held separately by the National Museums Scotland Charitable Trust (NMSCT) and currently amounts to circa £7.0 million.
24. The HLF share of costs requires to be drawn down on a proportionate basis as the project progresses. There is no requirement for the NMS share of costs to be drawn down from the NMSCT on a similar proportionate basis. In 2007/08 NMS utilised a mix of grant-in-aid and its own monies to fund the NMSCT portion of costs to date on the RMP, which at 31 March 2008 amounted to circa

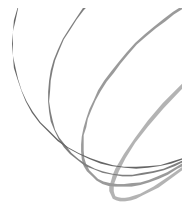


£4.3million. We acknowledge that, with the exception of HLF funding which is subject to special rules, there is no specific requirement to finance the RM Project on a proportionate basis. However, NMS consider that their current practice of utilising grant-in-aid in preference to its own and other funds is consistent with recent guidance from its Sponsor Directorate within the Scottish Government that emphasised the need for NMS to fully expend capital grant-in-aid or risk losing it. Whilst recognising the difficult financial management circumstances facing NMS in this respect, we consider that the practice of utilising grant in aid funding in preference to other available funds contravenes the general principle of not drawing grant in aid in advance of need, and thereby results in additional borrowing costs to government. In these circumstances, we recommend that NMS seeks further clarification from its Sponsor Directorate on the specific issue of whether the principle of proportionate funding should be applied to the funding of this project as it progresses.

25. We also noted that there is no formal agreement in place between NMS and the NMSCT on draw down arrangements for funding monies held by the NMSCT in respect of the RMP.
26. In our view there is a need for the funding strategy to require draw down of proportionate funding from all sources as the RMP progresses. There is also a need for a formal funding agreement between NMS and the NMSCT that sets out the arrangements for drawdown of these funds.

***Refer action plan no. 3***

27. **Fixed assets** - FRS 15 requires that property assets should be revalued on a regular basis by professional valuers, and it defines regular as a minimum of every 5 years, with an interim desk valuation in year three to confirm that there are no material differences arising. If the market is particularly volatile, annual valuations may be required. Newly constructed assets should also be valued when brought into use and any excess over recoverable amount should be written off. The last full property valuation was carried out by NMS in March 2004.
28. We found that NMS had not carried out any interim valuations of its property estate in accordance with FRS 15, despite significant rises in property values since the last review. We also noted that the new works at Granton were brought into use at the beginning of April, but no revaluation was undertaken at the time (this is planned for December 2008 when the whole estate is due to be revalued). These weaknesses in valuation procedures undermine budget management and have contributed to problems in managing capital charges costs.
29. FRS 11 requires that an impairment review should be undertaken where there is evidence that a possible impairment has occurred. During the year NMS carried out a condition survey of its property estate that revealed a maintenance backlog of £16.8 million, and is preparing a maintenance strategy to carry out the necessary work over the next ten years. In these circumstances an impairment review



would have seemed appropriate in order to assess the impact of the maintenance backlog on the current carrying value of NMS properties, but no such review had been carried out.

***Refer action plan no. 4***

## **Regularity Assertion**

30. 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.



# Governance

## Overview of arrangements

31. This section sets out our main findings arising from our review of NMS governance arrangements.

This year we reviewed:

- key systems of internal control;
- internal audit; and
- aspects of information and communications technology (ICT).

We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9-11).

Our overall conclusion is that arrangements within NMS are sound and have operated through 2007/08.

## Strategic Aims

32. NMS published an updated Strategic Plan covering the period 2006-2012 in June 2008. The plan focuses on seven key aims that align with its main activities, which are to:

- develop, manage and conserve the national collections to ensure their preservation and benefit to the public.
- develop and deliver innovative and accessible public programmes for all so as to enlighten, educate and inspire
- provide high quality experiences and services to visitors, both actual and virtual.
- communicate and raise awareness of our role, programmes and services to improve understanding of these and to increase participation across all audiences and stakeholders.
- undertake collections-related research, in order to fulfil its responsibility to increase knowledge about our collections and to interpret our collections to the public.
- fulfill a national and international role by working in partnership with the museums, cultural and educational communities of Scotland and beyond to deliver accessible services, advice and expertise.
- develop financial and physical resources and the full potential of staff and volunteers to deliver outstanding service, ensure environmental sustainability and optimise value for money.



33. NMS also prepares an annual operating plan that is based on the strategic objectives and drives out more detailed plans and timetables for departments and staff. Monitoring arrangements are in place to ensure achievement of key targets. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints over the same period. This is an area we will keep under review during our appointment.

## **Systems of internal control**

34. 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 2007/08 the head of internal audit provided his opinion that, based on the internal audit work undertaken during the year, there was adequate assurance on the adequacy and effectiveness on the systems of internal control. The level of assurance reflected continuing weaknesses in business continuity planning and disaster recovery planning, which are being addressed in 2008/09. As part of our audit we reviewed the high level controls in a number of NMS systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

## **Prevention and detection of fraud and irregularities**

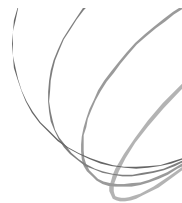
35. NMS has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and board members.

## **Internal Audit**

36. 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 2007/08 audit we assessed whether we could place reliance on NMS internal auditors. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan.

## **Statement on Internal Control**

37. The Statement on Internal Control (SIC) included with NMS accounts summarises the Accountable Officer's responsibilities for maintaining a sound system of internal control and the measures put in place to achieve this. The findings from our audit work have not identified any matters that are inconsistent with the statements and conclusions recorded in the SIC.



## Information and Communication Technology

38. NMS ICT system was reviewed by internal audit during 2007/08. Internal audit concluded that the systems were operating satisfactory with the exception of weaknesses in business continuity planning and disaster recovery planning. We have taken assurance from internal audit work in this area.



# Performance Management

39. 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. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
40. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

## Efficiency

41. NMS targets for the Efficient Government Plan for the three years to 2008/09 were £0.2 million of cash-releasing savings and £1.008 million of time releasing efficiencies. The cash-releasing target was achieved in 2006/07, but final figures in respect of time-releasing efficiencies were not followed through by NMS.
42. In the next three years budget settlement NMS is required to make a 2% per annum cash-releasing efficiency savings and absorb pay and cost inflation. The 2% efficiency represents in the region of £0.425 million per annum. NMS has plans in place to achieve almost half of the saving in 2008/09, with the balance spread over the remaining two years. This is a challenging target for NMS given existing priorities, especially financing the estate maintenance backlog of £16.8 million.
43. We will continue to monitor the financial position and the actions taken by NMS to manage the associated risks.

## Performance Management

44. NMS had five agreed performance indicators set by the Scottish Government covering; increases in visitor numbers; maintaining a balance of participation in specified visitor groups; increasing loans from the collection; increasing self generated income to £1.960 million by 2007/08; and delivering cash releasing efficiency savings of £0.2 million over the three year period ending 31 March 2008.
45. All of the targets were achieved with the exception of expected increases in the number of loans for display which had an actual outturn of 1,784 compared to a target of 2,500. The shortfall is attributed to restrictions on the number of loans due to the RMP.





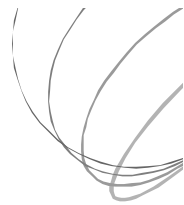
## Best Value developments

46. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.
47. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.
48. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.
49. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.
50. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.
51. NMS is applying Best Value principles as part of its drive to achieve efficient government targets whilst continuing to improve the quality of its services in line with its corporate objectives. It is continuing to develop formal policies and procedures to evidence and manage the application of Best Value principles in line with SPFM requirements. We will monitor developments in this area during 2008/09.

## National Studies

### Review of major capital projects in Scotland – How government works

52. During 2007/08 Audit Scotland carried out a review of major capital projects in the Scottish central government sector which included the Royal Museum Project currently being undertaken by NMS. Given that the RMP is still a relatively young project, the review was largely limited to the appraisal process and concluded that it had been completed to a good standard. The final report has now been



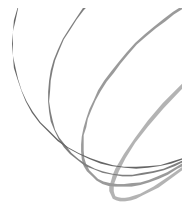
issued and contains wider findings and recommendations that NMS may find useful for its ongoing management of the RMP. The report can be downloaded free from our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Looking Forward

53. NMS faces a number of challenges in 2008/09, which include:

- **Royal Museum Project** – Perhaps the biggest challenge facing NMS over the next few years is the successful completion of the RMP within timescale and to budget. We will monitor developments in this area during 2008/09.
- **Maintenance backlog** – the NMS estate has an estimated maintenance backlog of £16.8 million which it plans to address over a 10 year period through the development of a new Estate Strategy. However, it is unclear whether there is sufficient funding in place to achieve this based on current levels of grant-in-aid. We note NMS intention to raise this with the Scottish Government, and we will continue to monitor the position closely, particularly with regard to any impact the backlog has on property valuations.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. However, this timetable does not apply to registered charities, such as NMS, which will be required to follow a slower timetable for convergence agreed by the UK Accounting Standards Board. A detailed timetable and list of requirements for all central government bodies in Scotland has now been issued by the Scottish Government. Notwithstanding the slower timetable applying to NMS, the convergence process will require some resource to complete and it is important that NMS properly plan to manage the transition over the next few years.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. 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 2008/09 audit.
- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less 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), particularly on PFI, leases and infrastructure accounting. The challenge for NMS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.

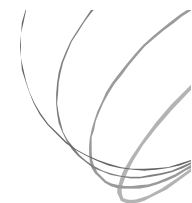
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. An interim report published in April 2008 made some initial recommendations and a final report is expected soon. We will monitor NMS response to the review and action taken as part of our 2008/09 audit.



# Appendix A: Action Plan

## Key Issues / Risks and Planned Management Action

Action Point	Issue / Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p><b>Management Statement &amp; Financial Memorandum</b></p> <p>The MS &amp; FM for NMS have not been revised since February 1993 and include a number of outdated provisions that conflict with current best practice as set out in the SPFM.</p> <p>The outdated nature of the MS &amp; FM undermines overall accountability and increases the risk of NMS contravening SPFM requirements.</p>	<p>This is a matter for the Sponsor Department. Nevertheless we will draw the matter to their attention.</p>	<p>Head of Corporate Policy and Performance</p>	<p>30 November 2008</p>
2	<p><b>Managing grant in aid and cash resources</b></p> <p>We noted several practices which indicate that grant-in-aid may have been drawn down in advance of need, including;</p> <ul style="list-style-type: none"> <li>not fully utilising alternative funding sources for the RMP;</li> <li>holding large cash balances (NMS had a cash balance of £4.7 million at year end. After adjusting for debtors, creditors and other designated funds, the uncommitted balance was circa £3.55 million).</li> </ul> <p>In the absence of an updated MS &amp; FM which clearly specifies the requirements for draw down of grant-in-aid, NMS is at risk of drawing funds down in advance of need, which conflicts with SPFM requirements.</p>	<p>See comments/action at 3 below</p> <p>NMS is not fully grant in aid funded therefore retains certain reserves for its own Board's discretion of around £2m. Working capital of £1m - £2m is needed for on going income/cash changes so a cash figure of £3m - £4m is not unreasonable in these circumstances and with risks in the RMP to manage in terms of cash flow. We will review our cash position in the light of comments made to ensure reasonable.</p>	<p>Director of Finance / Head of Finance</p>	<p>31 December 2008 and quarterly thereafter.</p>



<p>3</p>	<p><b>Funding the RMP</b></p> <p>The funding strategy for the RMP does not provide for proportionate funding by the NMSCT for its share of costs as the project progresses. This results in additional public sector borrowing costs and raises questions as to whether grant-in-aid is being drawn down in advance of need.</p> <p>There is no formal agreement in place between NMS and the NMSCT on draw down arrangements for funding monies held by the Trust in respect of the RMP.</p> <p>NMS should consult with its Sponsor Directorate within the Scottish Government on whether proportionate funding should be applied to the RMP as it progresses. NMS should also establish a formal funding agreement with the NMSCT.</p>	<p>National Museums Scotland manages the funding of the RMP on the following priority order in line with the guidance provided by the Scottish Government</p> <ol style="list-style-type: none"> <li>1 Scottish Government funding up to allocated amount available in the year</li> <li>2 HLF up to the % grant of expenditure (including any catch-up from prior years)</li> <li>3 Fund-raising as available in the NMSCT restricted fund</li> </ol> <p>This funding arrangement has been agreed with the Scottish Government and HLF with the fund-raising from NMSCT to be donated to National Museums Scotland by means of an application by them as it is a restricted fund.</p> <p>We will confirm the above priority of proportionate funding as requested by Audit Scotland with the Scottish Government</p>	<p>Director of Finance</p> <p>Director of Finance</p>	<p>In place</p> <p>30 November</p>
<p>4</p>	<p><b>Fixed assets</b></p> <p>NMS had not carried out any interim valuations of its property estate as required by FRS 15; nor had it carried out any impairment reviews in accordance with FRS 11 in order to evaluate the impact of a known maintenance backlog of £16.8 million.</p> <p>The absence of any valuation and impairment reviews increases the risk that weaknesses in valuation procedures undermine budget management and contribute to problems in managing capital charges costs</p>	<p>An estate wide valuation will be carried out in 2008/09 with a target date of 31 December 2008 to ensure valuations are made on an appropriate basis and are received well ahead of 31 March to allow proper accounting.</p> <p>An impairment review will be carried out at the same time.</p>	<p>Head of Finance</p>	<p>30 November to arrange 31 December to value and 31 January to follow-up</p>