
National Galleries of Scotland

Annual Report to the Board and the Auditor General for Scotland

Year ended 31 March 2013

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The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all matters arising and in particular we cannot be held responsible for reporting all risks in your business. This report has been prepared for and only for National Galleries of Scotland in accordance with the terms of our engagement letter and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

1 Introduction

We have pleasure in presenting this report relating to our audit of the financial statements of National Galleries of Scotland for the year ended 31 March 2013.

We have discussed this report with the Head of Finance and IT as part of our audit process. The purpose of this report is to update the Board on the progress of the audit and of any significant matters that have arisen during the course of our work.

1.1 Audit status

Our audit work on the draft financial statements for the year ended 31 March 2013 was carried out from the week commencing 10 June 2013. The audit is now complete.

1.2 Audit overview and conclusions

Subject to finalisation of the financial statements and their approval by the Board, we expect to issue an unqualified audit opinion for National Galleries of Scotland.

1.3 Findings arising from the audit

Section 2 of this report summarises the findings arising from our audit.

1.4 Misstatements and significant deficiencies in internal control

There have been no misstatements other than of a disclosure nature. These have all been accepted by management and have been updated in the financial statements. A summary of the areas identified for improvement in relation to control deficiencies identified is included in Appendix 1.

1.5 Other areas of feedback

Section 4 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing (ISA) 260 "Communication with those charged with governance".

During 2012/13 Scottish Government provided National Galleries of Scotland with budget cover to facilitate the transfer of £5.211 million to the National Galleries of Scotland Foundation. National Galleries of Scotland Foundation has been set up as an independent body with the charitable objective of furthering the objectives of the National Galleries of Scotland.

We look forward to the opportunity to discuss the points raised in the report with you at the Audit Committee meeting on 10 September 2013.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of National Galleries of Scotland throughout our work.

2 Audit Findings

Our audit followed the approach set out in our Audit Strategy document presented to the Audit Committee in March 2013. We confirm that there has been no cause for us to vary the planned scope of our work.

We have included a summary of our findings below.

Risk identified/area of audit focus	Audit response
Consideration of fraud risk Significant risk	In accordance with our audit plan, we reviewed significant journals and examined management's accounting estimates for bias. We can confirm that our work in this area did not identify any errors that required adjustment to the financial statements.
Revenue recognition Significant risk	We examined and tested the process through which management has identified and quantified any income that needs to be accrued (or deferred) at year-end. We can confirm that our work in this area did not identify any errors that required adjustment to the financial statements.

Our work in relation to our significant risks has resulted in no errors being identified that require an adjustment to be made to the financial statements.

3 Financial Performance

3.1 Financial performance – 2012/13

NGS is facing an increasingly challenging financial environment. Total in-year income decreased by £14.993 million to £24.858 million due to reduced donated assets in 2012/13 compared to Titian acquisition in 2011/2012 and planned reductions in expenditure relating to major projects (2011/12 £39.581 million) following the completion of a significant programme of work relating to the Scottish National Portrait Gallery. The Scottish Government has indicated that Grant in Aid allocations will remain challenging.

3.2 Financial outlook – 2013/14 and beyond

The NGS Board approved the budget for 2013/14 with a deficit of £1.5m which has been subject to scrutiny by the NGS Board in February 2013 and Corporate Plan for 2013-2018 in June and communicated with Scottish Government. The budget is planned to balance over the current spending review. The 2013/14 budget estimates includes a reduction in Grant in aid from £15.045 million to £14.435 million in 2013/14, with £0.500 million being as a result of a reduction to the capital grant.

NGS faces a number of cost pressures arising from the buildings and plant. In particular, the next priority for NGS is to refurbish the Scottish National Gallery. However, with a reduced capital budget NGS will face a challenge just to continue to manage their capital budget effectively to maintain the quality of the existing estate.

3.3 Financial Management and Leadership

It is commendable to note that the organisation has done well to achieve the financial efficiencies in previous years, as well as increasing self-generated income.

Management should continue to demonstrate strong leadership and the promotion of an efficiency and savings culture. This leadership will include robust monitoring and reporting on progress against any savings plans, and taking early action to avoid slippage within any savings schemes identified.

4 Communications required under ISA 260

The following table contains communication required under ISA 260 (revised and re-drafted) “Communication with those charged with governance”.

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	There have been no misstatements other than of a disclosure nature. These have all been accepted by management and have been updated in the financial statements.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. Board members will represent to us that they have considered the accounting policies and that there have not been any material changes in the accounting principles and policies used during the year.
Significant qualitative aspects of the organisation’s accounting practices and financial reporting , management’s judgments and accounting estimates	<p>The main significant accounting estimates that was required in the preparation of the financial statements are related to:</p> <ul style="list-style-type: none"> the valuation of land and buildings and subsequent indexations of the value of properties ; and the valuation of donated assets. <p>As part of the 2011/12 audit we identified that management had employed the Office for National Statistics’ Retail Prices Index excluding mortgage interest payments (RPIX) to index their assets and recommended that the Building Cost Information Service All in Tender Price Index (BCIS), which is also used by the District Valuer to inform their quinquennial valuations would be more suitable.</p> <p>In 2012/13 National Galleries of Scotland have undertaken a full revaluation of their land and buildings and adopted the BCIS index.</p> <p>When donated assets are received an estimate of the value is made by National Galleries of Scotland internal experts to assign a value to new works received. The documentation to support the valuations of new donated assets lacks detail to support the final value that National Galleries of Scotland record in the financial statements. Whilst there is evidence to support ownership of the assets by National Galleries of Scotland the information available to support the value is limited.</p> <p style="text-align: right;">Action 2</p>
Deficiencies in the internal control environment	<p>The purpose of the audit was to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.</p> <p>Such deficiencies in internal controls are included in Appendix 1.</p>

Details of material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of National Galleries of Scotland to continue as a going concern.
Disagreements with management	We have not disagreed with management on any matters which, individually or in aggregate, could be significant to the financial statements that have not been adjusted as summarised in Appendix 1.
Confirmation of audit independence	We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the entity and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Governance and Performance

National Galleries of Scotland has a well-developed approach to risk management and performance monitoring involving the Board and the Audit Committee to ensure that organisational goals remain on track. This process has continued to be refined on an ongoing basis.

Civil Service Pension Scheme

The majority of National Galleries of Scotland staff are eligible to join the Civil Service Pension Scheme. The latest actuarial valuation for the scheme is dated 31 March 2004 and plans for future valuations have been put on hold by instruction of HM Treasury due to changes that have taken place as a result of the move from RPI to CPI inflation for the revaluation of liabilities, as well as plans for long term reform of public sector pension schemes.

While National Galleries of Scotland has no direct influence over this, attention should be brought to the matter as it may have a future impact if increased employer's contributions are required when the valuation is updated.

National Galleries of Scotland should ensure that the potential for increased employer's contributions in relation to the Civil Service Pension Scheme is considered in future financial plans to ensure resources are available to fund this if required.

Action 1

Appendices

Appendix 1 – Deficiencies in internal control

	Finding	Management Response
1	Financial planning for pension actuarial valuation	
	National Galleries of Scotland should ensure that the potential for increased employer's contributions in relation to the Civil Service Pension Scheme is considered in future financial plans to ensure resources are available to fund this if required.	We will ensure that any changes to pension contributions are reflected in our pay model which informs our financial planning.
2	Donated Assets	
	The documentation to support the valuations of new donated assets lacks detail to support the final value that National Galleries of Scotland record in the financial statements. Whilst there is evidence to support ownership of the assets by National Galleries of Scotland the information available to support the value is limited.	During 2012-13 a Collections Audit was carried out and there is currently carrying out a review of the whole collections management process. We will communicate this finding to the project team to ensure it is addressed as part of this review.

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