
National Museums Scotland

Annual Report to the Board and the Auditor General for Scotland - FINAL

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 Museums 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 Museums Scotland for the year ended 31 March 2013.

We have discussed this report with the Director of Finance and Planning 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 24 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 Museums 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

A summary of corrected and uncorrected misstatements is included in Appendix 1. A summary of the areas identified for improvement in relation to controls is included in Appendix 2.

During 2012/13 a fraud by a small number of staff was uncovered, which was reported to the Scottish Government, the police and investigated by Internal Audit. The matter remains under investigation by Police Scotland. Management have taken action to address the failure of internal controls. The sums involved are not material to the presentation of the financial statements and do not imply a fundamental weakness in the systems of internal controls.

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 authorised National Museums Scotland to donate £2.026 million to the National Museums Scotland Charitable Trust. National Museums Scotland Charitable Trust had previously been set up as an independent body with the aim of furthering the objectives of the National Museums Scotland.

We look forward to the opportunity to discuss the points raised in the report with you at the Audit Committee meeting on 22 August 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 Museums 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
Management override of controls 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. However, it has been identified that routine journal transactions posted by members of the Finance Team are not subject to secondary review by another staff member. The Director of Finance and Planning has informed us that a large proportion of journals posted are of a routine nature that it is intended will be automated in due course. Once this is put in place a review process for the remaining journals will be implemented. Action 1
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

National Museums Scotland is facing an increasingly challenging financial environment. Total in-year income increased by £1.100 million to £30.600 million due to increases in income obtained from sources other than Grant in Aid (2011/12 £29.500 million). The Scottish Government has confirmed that Grant in Aid will continue to be reduced in future years which will place increasing pressure on the resources of National Museums Scotland.

3.2 Financial outlook – 2013/14 and beyond

The National Museums Scotland Board approved a balanced budget for 2013/14 and the updated Strategic Plan for 2011/15 in March 2013. The 2013/14 budget estimates includes a reduction in Grant in aid from £20.425 million to £20.324 million in 2013/14.

National Museums Scotland faces a number of cost pressures arising from the buildings and plant. In particular, since the reopening of the National Museum of Scotland it has been identified that increased energy costs have been incurred along with increased rates, water and sewerage charges.

National Museums Scotland currently have major projects being undertaken as part of the implementation of the National Museums Scotland Masterplan renewing and upgrading ten galleries at a cost of £12.850 million. This is supported in part by a grant of £4.850 million from the Heritage Lottery Fund.

Backlog maintenance continues to be a challenge for the management of National Museums Scotland. Due to the profile of the estate owned by National Museums Scotland it is necessary to continue to focus on maintaining the assets to ensure that they are utilised in the future a principal risk related to the need for buildings to be fit for purpose has been identified by National Museums Scotland and action has been implemented to minimise this risk.

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 which is anticipated will be subject to a small reduction from 2014/15. Balanced budgets are anticipated until 2015/16 where a deficit of £0.306 million is forecast.

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. <p>As part of the 2011/12 audit we identified that management employed the Office for National Statistics’ Output Price Index for Public Works (OPI) 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 Museums Scotland had initially utilised the BCIS General Building Cost Index. This index excludes the margin that contractors receive when agreeing the price to complete any building works, which is included in the All in Tender Price Index which is more reflective of the actual costs of construction works.</p> <p>Following discussion with the Director of Finance and Planning it was agreed that National Musuems Scotland would make use of the BCIS All in Tender Price Index in 2012/13 and this has been reflected in the financial statements. A summary of the corrected misstatement is included in Appendix 1.</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 2.</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 Museums 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 Museums 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 Museums 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 Museums 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 Museums 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 2

Appendices

Appendix 1 – Summary of corrected and uncorrected misstatements

The tables below set out details of the misstatements identified in the course of our substantive year-end audit work. All have been corrected within the financial statements.

No	Description of misstatement	Income and Expenditure Account		Balance Sheet	
		Dr	Cr	Dr	Cr
1	CR Fixed Assets NBV DR Revaluation Reserve DR Impairment <i>Being the impact of applying the BCIS All in Tender Price Index rather than the BCIS General Building Cost to revalue property to the net book value at year end.</i>			£2,176,000 £2,639,595	£4,815,595
2	CR Fixed Assets NBV DR Accumuated depreciation DR Capital reserve <i>Being the impact of recognising the disposal of Port Edgar.</i>			£121,000 £165,000	£286,000
Total uncorrected misstatements				£5,101,595	£5,101,595

Appendix 2 – Deficiencies in internal control

Finding	Management Response
<p>1 Review of journals</p> <p>It has been identified that routine journal transactions posted by members of the Finance Team are not subject to secondary review by another staff member. The Director of Finance and Planning has informed us that a large proportion of journals posted are of a routine nature that it is intended will be automated in due course. Once this is put in place a review process for the remaining journals will be implemented.</p>	<p>Agreed. Many journals currently post entries that should be posted as part of a system process that would not allow manual intervention. Other entries would benefit from a pre-posting secondary review and changes will be made to introduce such review for these entries first.</p>
<p>2 Financial planning for pension actuarial valuation</p> <p>National Museums 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.</p>	<p>Agreed and noted</p>

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