
National Galleries of Scotland

Annual Report to the Board and the Auditor General for Scotland

Year ended 31 March 2014



Audit and Risk Committee
National Galleries of Scotland,
73 Belford Road
Edinburgh
EH4 3DS
16 September 2014

Dear Sirs

We are pleased to provide you with our Annual Report to the Board and the Auditor General for Scotland, on the results of our external audit of the National Galleries of Scotland for the year ended 31 March 2014. The main purpose of the report is to communicate the more significant matters arising from our external audit of the financial statements that we believe are relevant to those charged with governance.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 22 September 2014. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are:

- Representation letters; and
- Subsequent events review

Once again we offer thanks to Management and staff for their assistance with our external audit work.

Yours faithfully

PricewaterhouseCoopers LLP

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1 Executive Summary

We have pleasure in presenting this report relating to our audit of the financial statements of the National Galleries of Scotland (NGS) for the year ended 31 March 2014.

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.

Management responsibility

It is the responsibility of the Body to prepare the financial statements in accordance with the Paragraph 8 (3) of the Schedule to the National Galleries of Scotland Act 1906 as amended by Section 17 of the National Heritage (Scotland) Act 1985, and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Body and its expenditure and income for the year ending 31 March 2014; and
- preparing a Trustees' Annual Report, a Governance Statement and a Remuneration Report.

Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of the Body and its expenditure and income for the year;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

We are also required to review and report as necessary on other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

1.1 Audit status

Our audit work on the draft financial statements for the year ended 31 March 2014 was carried out over a two week period commencing 30 June 2014. The audit is complete.

1.2 Audit overview and conclusions

We have issued 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 Systems of Internal Control

The Accountable Officer in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

We did not identify any significant matters that, in our professional judgement, we believe we should bring to your attention. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of NGS.

All misstatements identified during the audit have been adjusted within the accounts; therefore, we have no summary of uncorrected misstatements to present in this report. There were no control deficiencies identified in the current year but an update on those raised in previous years is included in Appendix 1.

1.5 Financial Performance

The Body's key financial performance for the period is as follows:

- The final outturn was £19.703m against a revenue resource limit of £21.360m.
- Capital expenditure in the period was £1.025m which matched the core capital resource limit of £1.025m.
- The Scottish Government have confirmed Grant-In-Aid funding for 2014/15 as £13.725million (an increase of 4.29% on 2013/14). We have not identified any key indicators or been made aware of any factors that would suggest that the Body will struggle to meet its financial targets.

1.6 Other areas of feedback

Section 3 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing (ISA) 260 (revised and re-drafted) "Communication with those charged with governance".

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of NGS. NGS have in place an appropriate code of conduct and whistleblowing policy.

We do however note that NGS detected a fraud during 2013/14, and implemented their fraud response plan to fully investigate the matter. The perpetrator was successfully prosecuted and NGS are now seeking recovery of circa £3,000 of misappropriated funds. A review of policies and procedures has been undertaken by Internal Audit and appropriate changes have been made.

We noted that the Income and Expenditure Statement (I&E) is required by the Scottish Government's Financial Reporting Manual with the Statement of Financial Activity (SoFA) required by the Statement of Recommended Practice for Charities. The differing presentation of these two statements may make understanding of the accounts more difficult to the reader due to the exclusion of the significant Grant-In-Aid funding from the I&E. To support the work of NGS, applications for funding for specific projects are made to a range of grant awarding bodies. As part of the application process, recent financial statements meeting charity requirements are typically required.

We look forward to the opportunity to discuss the report with you at the Audit and Risk Committee meeting on 16 September 2014.

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 throughout our work.

2 *Audit findings*

Our audit followed the strategy set out in our Audit Strategy document presented to the Audit Committee on 25 February 2014. We confirm that there has been no cause for us to vary the planned scope of our work.

Our response to the areas of audit focus identified in the audit plan:

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 account estimates for potential bias. We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.
Revenue recognition Significant risk	We examined and tested the process through which management has identified and quantified any income that needed to be accrued (or deferred) at year end. We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of NGS. NGS have in place an appropriate code of conduct and whistleblowing policy.

3 *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	We did not identify any misstatements which have not already been adjusted by National Galleries of Scotland in the financial statements presented for approval.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask board members to 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 accounting practices and financial reporting, management’s judgments and accounting estimates	No significant judgements or accounting estimates were required in the preparation of the financial statements.
Deficiencies in the internal control environment	The purpose of our 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. Such deficiencies in internal controls are included in Appendix 1.
Details of material uncertainties related to events and conditions that may cast significant doubt on the NGS’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.
Significant difficulties encountered during the audit	We did not encounter any significant difficulties which would prevent us from undertaking the audit.
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 National Galleries of Scotland 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

All Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of Best Value in the use of resources. National Galleries of Scotland is accountable to Scottish Ministers.

We have assessed the Body's overall governance arrangements including a review of Board structure and minutes, financial reporting to the Board, and risk management. National Galleries of Scotland has a well-developed approach to risk management to ensure that organisational goals remain on track. This process has continued to be refined on an ongoing basis with this being considered regularly by the Board and the Audit and Risk Committee. Appropriate evidence of activity has been provided by the Body.

The Code of Audit Practice requires us to review and report on the Body's Annual Governance Statement. The Body has used the appropriate format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Body's control framework have been highlighted.

Based on our normal audit procedures, **we agree that** the disclosures contained in the Statement are consistent with our audit findings. We consider that appropriate governance arrangements and reporting are in place.

Chiene and Tait in their role as Internal Auditors of NGS have completed their audit plan for 2013/14.

Based on audit work performed we consider the Internal Audit function and the systems of internal control in place appropriate for the needs of NGS.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

Appendices

Appendix 1: Deficiencies in internal control

Current year recommendations

We have not identified any areas of internal control deficiencies during our audit fieldwork this year.

Status of prior year recommendations

The following table details the outstanding internal control recommendations identified during our 2012/13 with a current year update.

Deficiency, recommendation and management response	2013/14 update
<p>Deficiency The review of journals has been performed on a monthly basis. However, the reconciliation to the system trial balance for all months was not performed until year end (24 April 2013). In addition, it was noted that in two instances, the reconciliation to the system journals records was not signed and dated to indicate that the review was completed.</p> <p>Recommendation Journals should be fully reconciled on a monthly basis with reconciling items appropriate investigated and reviewed.</p> <p>Management response The Corporate Services Manager will ensure that the monthly reconciliation is carried out, signed and dated, at the same time as the monthly review of journals.</p>	<p>From our review in the current year, the only monthly reconciliation which had not been completed at the time of our audit fieldwork was for the final month within the 13/14 year end (March 2014).</p> <p>Due to the improvement from prior year and only one instance being identified in the current year, this deficiency is considered closed from an audit point of view.</p> <p>Status: Implemented.</p>

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