

National Galleries of Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

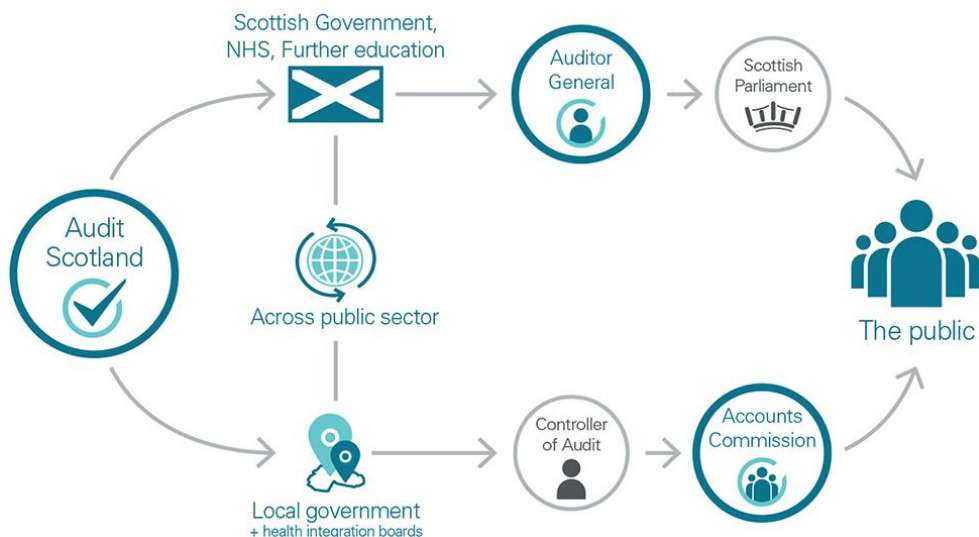
Prepared for National Galleries of Scotland and the Auditor General for Scotland

12 September 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 financial statements

- 1 The financial statements of National Galleries of Scotland (“NGS”) for 2016/17 give a true and fair view of the state of its affairs and its income and expenditure for the year.
- 2 The other information in the trustees’ annual report is consistent with the financial statements and prepared in accordance with legal requirements.

Financial management

- 3 NGS satisfactorily managed the 2016/17 budget and operated within its grant in aid limits.
- 4 Systems of internal control operated satisfactorily in 2016/17 with scope for improvements in some areas.
- 5 There was good engagement with the National Fraud Initiative (“NFI”) exercise.

Financial sustainability

- 6 NGS has effective financial planning arrangements in place based on the approved budget. NGS should continue to work to manage the forecast excess of expenditure over income in 2018/19 and 2019/20.
- 7 NGS has high-level 3 year financial plans. Management plans to further improve this process by developing 5 year financial plans and using scenario planning/sensitivity analysis to model changes to its budget.

Governance and transparency

- 8 NGS has satisfactory governance arrangements in place. It should consider the use of management assurance statements and internal control checklists to improve the assurances provided to the Accountable Officer.
- 9 NGS is largely open and transparent, but with some scope for improvement regarding the availability of board and committee papers.

Value for money

- 10 NGS has a satisfactory performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of National Galleries of Scotland (“NGS”).
2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit & Risk Committee. This report includes our findings on:
 - the audit of the trustees’ annual report and financial statements
 - the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of the NGS’s main financial systems and governance arrangements
 - an audit of the NGS’s 2016/17 trustees’ annual report and financial statements including the issue of an independent auditor’s report setting out our opinions.
4. National Galleries of Scotland is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the trustees’ annual report and financial statements, and for establishing effective

arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance and the auditing profession's ethical guidance.
6. These responsibilities include giving independent opinions on the financial statements, regularity of income and expenditure the trustees' annual report and the governance statement. We also review and report on the arrangements within NGS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Our annual audit report contains an action plan at [Appendix 1 \(page 25\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the trustees' annual report and financial statements or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both National Galleries of Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk after the trustees' annual report and financial statements have been laid before the Scottish Parliament.
12. We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2016/17 financial statements



Main judgements

The financial statements of NGS for 2016/17 give a true and fair view of the state of its affairs and its income and expenditure for the year.

The other information in the trustees' annual report is consistent with the financial statements and prepared in accordance with legal requirements.

Unqualified audit opinions

13. The trustees' annual report and financial statements for the year ended 31 March 2017 was approved by the board on Monday 11 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on regularity of expenditure and income; and
 - an unqualified audit opinion on the trustees' annual report, which has been prepared in accordance with the Charities Statement of Recommended Practice ("SORP"), and the Governance Statement.
14. Additionally, we are satisfied that there are no matters which we are required to report by exception.

Submission of trustees' annual report and financial statements for audit

15. We received the unaudited financial statements on 21 June 2017, in line with our agreed audit timetable.
16. The working papers provided with the unaudited financial statements were of a reasonable standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

Whole of Government Accounts ("WGA")

17. In accordance with the WGA guidance we completed the appropriate section of the assurance statement and submitted to the National Audit Office ("NAO") by the 30 September 2017 deadline.

Risk of material misstatement

18. [Appendix 2 \(page 28\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

The trustees' annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Materiality

19. Materiality defines the maximum misstatement that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
20. Our initial assessment of materiality for the trustees' annual report and financial statements was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. On receipt of the unaudited trustees' annual report and financial statements we reviewed our original materiality calculations and concluded that they remained appropriate subject to adjustments to base our materiality on gross assets as at 31 March 2017. Our revised materiality thresholds are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
<p>Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross assets for the year ended 31 March 2017.</p> <p>We have used gross assets as the basis for calculating materiality as a primary function of NGS is to operate as a custodian of public assets. This approach is in line with ISA 320 Audit Materiality and Practice Note 10 - Audit of Financial Statements of Public Sector Bodies in the United Kingdom.</p>	£3.340 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of misstatement 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 calculated performance materiality at 50% of overall materiality.</p>	£1.670 million
<p>Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of overall materiality.</p>	£ 33,000

Source: Audit Scotland

Evaluation of misstatements

22. There were no material adjustments to the unaudited financial statements arising from our audit. There were four misstatements that exceeded our reporting threshold that management did not adjust. These are detailed in Exhibit 3 below (issues 1-4), with details of their impact on the trustees' annual report and financial statements outlined in [Appendix 3 \(page 31\)](#).
23. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officer and materiality levels. Management does not propose to adjust for the items above as the amounts are not considered material in the context of the financial statements. We agree that these amounts are immaterial in relation to our audit opinion.

Significant findings from the audit

24. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 25\)](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Mind the Gap Provision £366,000</p> <p>NGS entered into a contract for an element of capital work in respect of its Mind the Gap project in March 2017 and drew down capital grant in aid to fund this. This work straddled two financial years (16/17 and 17/18). Management recognised a £366k provision in its accounts in respect of work that took place in the first quarter of 2017/18 to complete this project.</p> <p>We do not believe this is a provision, but instead, a capital commitment. The SORP defines a provision as “a liability of uncertain timing or amount.” The drawing down of funds for a project is a budgeting issue and has no bearing on the recognition of costs under the SORP if this is a capital project.</p>	<p>Management advised that as the work on this contract commenced ahead of the year-end, a provision was made for the whole contract cost so as to match income with expenditure and present the substance of the transaction in a prudent and conservative manner.</p> <p>Refer to Recommendation 1</p>
<p>2. Creative Scotland Deferred Income £105,000</p> <p>NGS recognised deferred income of £105k relating to Creative Scotland funding. This was received in 2014/15 as part of a contemporary art project and the balance of unspent funds was to be used for the legacy throughout Scotland. This money was received prior to the implementation of the Charities’ SORP (FRS 102) in 2015/16. This was recognised as deferred income to match the income to the associated expenditure. This grant did not have performance-related conditions attached.</p> <p>This is not permitted under the SORP. Under SORP paragraphs 5.10, 5.11 and 5.27:</p> <ul style="list-style-type: none"> • matching expenditure to income is not permitted; • grant income is recognised when there is evidence of entitlement, receipt is probable and the amount can be measured reliably. Evidence of entitlement will usually exist when the formal offer of funding is communicated in writing to the charity, unless conditions are attached; • grants without conditions should not be deferred even if the resources are received in advance of the expenditure on the activity funded by them; • the timing of the related expenditure is at the discretion of the charity and the income cannot be deferred simply because the related expenditure has not been incurred. 	<p>Management advised that as NGS does not have ultimate control over the allocation of expenditure for this project they should not recognise this as income until Creative Scotland approval has been given. This grant pre-dated the current SORP, and the funding agreement does not reflect performance related conditions. Thus NGS has chosen to match income with expenditure and has chosen not apply the Charities’ SORP on this occasion.</p> <p>Refer to Recommendation 1</p>
<p>3. £100,000 Friends’ Deferred Income</p> <p>NGS received £0.453m of income from its Friends’ memberships in 2016/17. The use of this money is controlled by the internal Friends’ Committee, which allocated £50k of this money for a Caravaggio exhibition and £50k for</p>	<p>Management advised that they have chosen to match income with expenditure and has chosen not apply the Charities’ SORP on this</p>

Issue	Resolution
<p>Educational projects, both of which are due to take place in 2017/18.</p> <p>NGS has categorised £100k of this as deferred income. It has also recognised this income and expenditure in its Statement of Financial Activities. Deferred income is when income is not recognised in year. In recognising expenditure in advance, management has accrued expenditure, rather than deferring income.</p> <p>Deferring income in this manner is not permissible under the SORP. Paragraph 5.27 states that income without conditions should be recognised in the financial year it is received and should not be deferred, as the timing of the expenditure is within the control of the charity. It also states that this income cannot be deferred simply because the expenditure has not been incurred.</p>	<p>occasion.</p> <p>Management advised that this is a legacy method of accounting for Friend's projects, which will be reviewed in 2017/18.</p> <p>Refer to Recommendation 1</p>
<p>4. Shared Services Accrual £94,834</p> <p>NGS received funding from the Scottish Government several years ago for shared services' projects with the National Library of Scotland. NGS recognises this as an accrual in its accounts. This accrual has been carried forward from the 2015/16 accounts.</p> <p>This accrual should not be recognised in NGS's Balance Sheet. A liability should only be recognised if NGS has committed to paying this money and the amount is certain. NGS has not committed to pay this money.</p>	<p>Management advised that the timing of this expenditure is not at the sole discretion of the charity thus management has not adjusted the accounts in respect of this misstatement.</p> <p>Management has advised that they have chosen to match income with expenditure and has chosen not apply the Charities' SORP on this occasion.</p> <p>Refer to Recommendation 1</p>

Source: Audit Scotland

Recommendation 1

NGS should comply with the requirements of the SORP and ensure that they recognise income in the year in which it is received and expenditure in the year in which it is incurred. Particular reference should be made to SORP chapter 5.

Heritage Assets Register

25. NGS has capitalised a total of £197.9m heritage assets at 31 March 2017. NGS capitalises heritage assets purchased since 1 April 2000 and carries these assets at cost and not revalued. This is in accordance with the Government Financial Reporting Manual ("FReM").
26. NGS manages its heritage assets using its Mimsy asset register. We have been advised that management has processes in place to monitor the locations of these assets. We undertook physical existence testing for a sample of assets from the Mimsy asset register and did not identify any issues.

27. However, it is not possible to obtain a breakdown of heritage assets capitalised in the accounts, with corresponding values for the following reasons:
- Mimsy contains up to date valuations for all assets, not just those capitalised in the accounts.
 - These valuations are updated for insurance purposes. As such, these do not reflect the cost of the assets per the Balance Sheet.
 - If there is more than one individual piece within an overall asset (e.g. a drawing within a larger collection of drawings) the total value of the collection is assigned to each individual asset.
28. Management advised that there is an incremental reconciliation between Mimsy and the listing of capitalised heritage assets. However an overall reconciliation has not been performed since the policy was introduced in 2000. As such, there is a risk that heritage assets capitalised since 2000 may be misstated, in the event that an item were to have been sold, transferred, lost, stolen or damaged and therefore should no longer be recognised in the Balance Sheet.

Recommendation 2

Management should investigate how to obtain a list of all heritage assets capitalised on the Balance Sheet, with the capitalised cost.

Management should introduce a procedure to ensure that all capitalised heritage assets are still in use.

Restatement of Accruals

29. In 2015/16, NGS's previous external auditor, PWC, reported that there was a potential overstatement of accruals by up to £1.1m due to purchase orders not being matched to invoices.
30. During 2016/17, management undertook a detailed review of the purchase order ("PO") system and the goods received not invoiced ("GRNI") accrual. Management confirmed that the total value of the overstatement was lower than originally thought, with a total £815k overstatement of accruals. Management has restated the accounts in respect of this misstatement to reduce the value of liabilities and increase reserves. This restatement consists of the following balances:
- £681k of this related to historic POs (pre April 2016) that have been receipted in error, or which haven't been invoiced by the supplier. Most of these are small value payments, with a total of 2968 POs, of which 8 are in excess of £5,000 and the average value of the invoices is £229.
 - £134k is a historic difference between the ledger and the PO system. Management determined that finance staff journalled to correct/void invoices that had been posted incorrectly. However, the PO system hadn't been updated to remove the corresponding POs.

Presentation and Disclosure

31. During the audit, we identified a number of issues with the presentation and disclosure in the trustees' annual report and financial statements. All significant issues were adjusted and reflected in the audited trustees' annual report and financial statements.

Recommendation 3

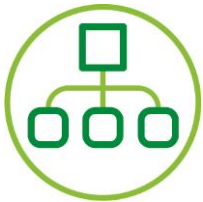
To minimise the number of presentational and disclosure adjustments, management should complete the NAO disclosure checklist when preparing the 2017/18 accounts.

NGS Foundation

- 32.** In our Annual Audit Plan, we noted that NGS doesn't consolidate its charitable foundation, National Galleries of Scotland Foundation ("the Foundation") which was created in 2012. The previous auditors, PWC, agreed with management's assessment that no consolidation of the Foundation was required, as NGS didn't control the Foundation.
- 33.** This year, we met with management to assess NGS's relationship with the Foundation. We are content that, in 2016/17, NGS did not exercise control over the Foundation, as required by SORP paragraph 24.15. Therefore, we agree with management's decision not to consolidate the Foundation this year. We will continue to assess NGS's relationship with the Foundation throughout the remainder of our audit appointment.

Part 2

Financial management



Main judgements

NGS satisfactorily managed the 2016/17 budget.

Systems of internal control operated satisfactorily in 2016/17 with scope for improvements in some areas.

There was good engagement with the National Fraud Initiative (NFI) exercise.

Financial performance in 2016/17

34. The main financial objective for National Galleries of Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. NGS also has to self-generate income and manage costs over the long term to ensure sustainability.
35. NGS has reported an outturn of £15.445 million. NGS granted £0.2m to its Foundation in 2016/17. The financial performance against Departmental Expenditure Limits (“DEL”) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2016/17

Performance	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	12.995	12.995	0
Capital DEL (including purchase grant)	2.45	2.45	0
Total DEL	15.445	15.445	0

Source: NGS 2016/17 accounts and Grant in aid letter

Internal controls

36. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that National Galleries

of Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

37. We concluded that the controls were operating satisfactorily. No significant internal control weaknesses were identified during the audit which could affect NGS's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
38. We identified the following control weaknesses, which we communicated to management.
39. **Review of Journals:** There is no review/authorisation of journals raised by finance staff. Management advised that, after our interim visit, all journals in excess of £5k were reviewed. Management is now undertaking a quarterly review of journals. We will review this process as part of our 2017/18 audit.
40. **Existence of Employees:** There is no process to confirm the continuing existence of employees. Best practice suggests that employee validation checks should be undertaken. This is a key control to ensure that all staff on the payroll exist and that there are no "ghost" employees being paid. Management advised that there are a number of processes in place to monitor movements in staff numbers, including the close monitoring of staff budgets, which provide some assurance. However, these do not provide assurance over the existence of staff on the payroll.
41. We have therefore recommended that a check of the existence of staff on the payroll is undertaken to address this risk. This is a particular risk given that NGS employs a number of seasonal staff during the summer months to cope with increased visitor numbers in its galleries.
42. We substantively tested the existence of a sample of 5 staff on the payroll during 2016/17. No issues were identified. During 2016/17, Internal Audit identified that an employee remained on the payroll for 3 months after they left. This was only identified once the leaver notified NGS that they were still being paid. The overpayment has been recovered. Internal audit identified that an additional check has been introduced for leavers which ensures that any anomalies like this are identified to prevent this situation from recurring. We note that Internal Audit gave substantial level of assurance in their Payroll report.

Recommendation 4

We recommend that NGS should introduce a control to check the existence of its staff. This would mitigate the risk of payments being made to individuals who do not work for NGS.

Budgetary processes

43. We also reviewed NGS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of Audit & Risk Committee papers and attendance at Audit & Risk Committees we confirmed that senior management and committee members receive regular, timely and up to date financial information on the financial position. Members provide a good level of challenge to management on performance against budget.
44. We concluded that NGS has satisfactory budgetary monitoring and control arrangements that allow both members and management to carry out effective scrutiny of NGS's finances.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Prevention and detection of fraud and irregularity

45. We assessed NGS's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the fraud strategy. Management advised that budget holders and managers attend biennial fraud awareness sessions at which examples of fraudulent activity are shared and policies are discussed. The next series of sessions are due in autumn 2017. We consider that this is good practice.
46. We concluded that NGS is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

National Fraud Initiative

47. The National Fraud Initiative ("NFI") in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error ([Exhibit 5](#)).

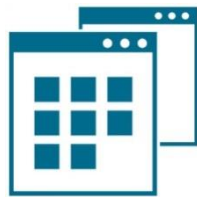
Exhibit 5

Total number of matches



511

Number recommended for investigation



121

Completed/closed investigations



125

Source:

48. NGS participates in NFI for payroll, creditors and procurement. NGS is proactive in completing its NFI exercises. NGS has reviewed all of its recommended matches. The results of the NFI exercise were reported to the February and June Audit & Risk Committees, which demonstrates good practice.
49. Management has not presented the self-assessment checklist to its Audit & Risk Committee to assess its performance. We provided this to management, who agreed to present this to the August 2017 Audit & Risk Committee.
50. We understand that management is reviewing its Fraud Policy. We recommend that management considers embedding the NFI exercise within its Fraud Policy and uses it as a source of assurance in its anti-fraud measures.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

51. We have reviewed the arrangements in place to maintain standards of conduct including the Fraud Policy and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

52. Based on our review of the evidence we concluded that NGS has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgements

NGS has effective financial planning arrangements in place based on the approved budget. NGS should continue to work to manage the forecast excess of expenditure over income in 2018/19 and 2019/20.

NGS has high-level 3 year financial plans. Management plans to further improve this process by developing 5 year financial plans and using scenario planning/sensitivity analysis to model changes to its budget.

Financial planning

53. NGS presented its 2017/18 budget to its February 2017 Audit & Risk Committee. It was subsequently presented to the March Board, with a recommendation for approval. The budget has forecast a small surplus of £32,000.
54. In 2017/18, NGS has received a £17.345m grant in aid (“GIA”) settlement, comprising £12.895m resource allocation, £4.25m capital budget and a further £0.2m for artwork acquisitions.
55. NGS’s resource GIA is the same as its 2016/17 resource budget in cash terms. The budget assumes a further £3.6m of non-GIA income which includes self-generated income, sponsorship, exhibitions and income from the NGS trading company.
56. The budget shows an increase of £250,000 in salary costs due to implementation of pay increases in line with Scottish Government policy and a number of posts being filled, resulting in a full staff complement. Staff costs comprise 66% of the resource budget.
57. NGS’s capital GIA has increased from the £2.45m capital budget allocated in 2016/17 to £4.45m (including £0.2m for artwork purchases). The increased capital budget is to fund increased capital projects for the extension of the Scottish National Gallery, the Collections Facility, essential maintenance and advancement of digital initiatives.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

2016/17 financial position

58. The Consolidated Statement of Financial Position summarises what is owned and owed by NGS. The financial statements show the following:
 - NGS’s net assets have increased by £39m. This is largely due to the revaluation of land and buildings, which have increased by £25.8m as well as the addition of £12m heritage assets. The increase in heritage assets largely relates to the addition of the Monarch of the Glen painting in March 2017. This was valued at £8m.

- NGS's debtors have increased by £3.2m. This largely relates to accrued income to fund the purchase of the Monarch of the Glen painting. NGS's creditors have increased by £3m. This largely relates to accrued expenditure payable in respect of the Monarch of the Glen painting. Under an agreement with the sellers, Diageo, NGS received the painting in March however did not require to make payment until after year-end.
- NGS's income from donations and legacies has increased by £11m to £13m. This largely relates to the donation of artwork.

Medium to long term financial planning

- 59.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term. NGS is mainly funded by Grant-in-Aid from the Scottish Government (78% of 2017/18 budget), which is set on a year-on-year basis.
- 60.** As part of its 2017/18 budget, NGS has prepared high-level budget projections for 2018/19 and 2019/20. These show forecast overspends (i.e. excess of expenditure over income) of £337k and £563k in 18/19 and 19/20 respectively.
- 61.** In advance of preparing the 2017/18 budget, NGS presented 3-year forecasts to its Audit & Risk Committee, with sensitivity analysis. Management advised that sensitivity analysis has been used in this way for several years. This demonstrates good practice.
- 62.** However, this process could be further improved by preparing 5 year financial plans and embedding sensitivity analysis and scenario planning for possible budget changes within these financial plans. The inclusion of scenario planning and sensitivity analysis within the budget presented to trustees would enable NGS to make better-informed, longer-term decisions.
- 63.** Management confirmed that they are addressing this as follows:
- A 5-year financial plan is being prepared for the NGS Trading Company, NGS's subsidiary.
 - A 5 year capital projection and a 5 year core budget will be presented to the Audit & Risk Committee in August 2017.

Recommendation 5

Management should embed scenario planning and sensitivity analysis within their planned 5 year budgets to model the impact of different assumptions.

Management should continue to refine these budgets and implement plans to manage forecast overspends.

Part 4

Governance and transparency



Main judgements

NGS has satisfactory governance arrangements in place. It should consider the use of management assurance statements and internal control checklists to improve the assurances provided to the Accountable Officer.

NGS is largely open and transparent, with some scope for improvement regarding the availability of board and committee papers.

Governance Structure

- 64. The National Galleries of Scotland Act 1906, as amended by the National Heritage (Scotland) Act 1985.
- 65. NGS had 11 trustees on its board during 2016/17. In June 2017, the Chair's term of office came to an end. He was succeeded by Benny Higgins, an existing trustee, with effect from 1 July 2017.
- 66. The Accountable Officer is Sir John Leighton, Director-General of National Galleries of Scotland.
- 67. The board has four sub-committees including the Audit & Risk Committee. The operational management of the National Galleries of Scotland is delegated by the Board of Trustees to the Director-General and his Senior Management Team.

Governance Arrangements

- 68. During our interim audit, we carried out a review of the role of the NGS Board. This followed up recommendations from a previous Audit Scotland national performance report published in September 2010. This assessed the governance, decision-making and scrutiny arrangements of the Board. Our review included an assessment of Board papers and minutes, and discussions with the Head of Planning & Performance.
- 69. We identified that there is no formal request for board members and others attending board/committees to declare any interests at the start of meetings.
- 70. Good practice requires that trustees and those attending board/committees should be formally requested to declare any interests at the start of meetings. Management advised that interests are declared as required; however this is a rare occurrence. Management confirmed that this will be added to future board and committee agendas as a standing item from September 2017 onwards.
- 71. Trustees are offered On Board training as part of their induction. However, management advised that no other training is provided to members. NGS should consider offering further training to its trustees to ensure they are aware

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

of their role and responsibilities. This is particularly important when members join different committees, e.g. the Audit & Risk Committee.

Recommendation 6

NGS should offer training to its trustees to assist them in fulfilling their roles. This is particularly important when trustees join new committees. The need for training should be considered as part of trustees' annual appraisals.

The Annual Governance Statement

- 72.** Under the FReM, National Galleries of Scotland must prepare an annual governance statement within the trustees' annual report and financial statements. Guidance is set out within the Scottish Public Finance Manual ("SPFM") for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.
- 73.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies.
- 74.** During the audit, we identified a number of issues regarding the governance statement's compliance with the SPFM. Management addressed most of these. However, NGS does not prepare written assurance statements to provide the Accountable Officer with sufficient assurance on the governance arrangements. The use of these checklists is common practice across central government non-departmental public bodies and is required by the SPFM.

Recommendation 7

NGS should comply with the requirements of the SPFM by requiring senior management to complete assurance statements and internal control checklists.

- 75.** We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, we conclude that it presents a reasonable picture of governance arrangements and matters.

Review of Policies and Procedures

- 76.** During our audit, we identified that a number of NGS's policies and procedures have not been reviewed or updated in some time. Best practice would be to review all policies and procedures annually to ensure that they are fit for purpose and relevant to NGS's needs. In particular, we identified the following documents had not been reviewed or updated in some time:
- **The Board Terms of Reference** were last updated in 2009. Management advised that all committee terms of reference are due for review during 2017/18.
 - **Risk Management Policy** – during our planning work, we identified that this policy was last updated in 2003. Since then, management has developed a new risk management policy and procedures, which were approved in June 2017. We will review this in more detail during 2017/18.

Recommendation 8

NGS should review its policies and procedures regularly, ideally annually, to ensure they are fit for purpose.

Internal audit

- 77.** Internal audit provides National Galleries of Scotland and the Director-General of NGS, as Accountable Officer, with independent assurance on NGS's overall risk management, internal control and corporate governance processes.
- 78.** During 2016/17, NGS's internal auditor, Chiene and Tait, transferred their internal audit practice to TIAA. NGS agreed to continue with TIAA during 2016/17. We carried out a review of the adequacy of the internal audit function. TIAA received an external assessment that concluded that it operates accordance with the Public Sector Internal Audit Standards ("PSIAS") and has sound documentation standards and reporting procedures in place.
- 79.** To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's report on ICT Security and Cybercrime for our wider code of audit practice responsibilities (see below). We considered other internal audit report findings as part of our wider dimension work.

ICT risks

- 80.** We did not undertake specific ICT work in 2016/17. However, we did review NGS's disaster recovery and business continuity policies. NGS is currently updating these policies in respect of ICT. Given the risk of cyber attacks, we will continue to monitor developments in this area.
- 81.** As noted above, we have reviewed internal audit's ICT report. They concluded that there was limited assurance in this area, and identified a number of weaknesses in NGS's ICT arrangements.
- 82.** Management has accepted these recommendations and is implementing agreed actions to address these.

Transparency

- 83.** Transparency means that the public have access to understandable, relevant and timely information about how public bodies are taking decisions and how they are using resources.
- 84.** Overall, we concluded that NGS conducts its business in an open and transparent manner but we believe that there are some areas where it could improve current arrangements:
- NGS publishes heavily-redacted board minutes on its website. However, it does not publish any other board or committee minutes or papers on its website. NGS board and committee meetings are held in private.
 - NGS holds a biennial public meeting. However, the last meeting took place during 2014.
- 85.** Management advised that the board considers that much of its business is private. As such, there are no plans to make available more information about the business considered by the board and its committees. However, there is no documented rationale for this approach.

Recommendation 9

With increasing public expectations for more openness in the conduct of public business, NGS should keep this area under review and consider whether there is scope to enhance transparency. This could include, for example, reviewing the availability of board and committee papers and committee minutes.

Part 5

Value for money



Main judgements

NGS has a satisfactory performance management framework in place.

86. Value for money is a key element of our audit approach. In 2016/17 we did not identify any significant value for money risks during our planning and therefore we did not undertake any specific value for money work this year. We will keep this area under review over the five-year audit appointment and will report as appropriate.

Performance management

87. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with NGS agree to undertake local work in this area.

88. The performance of NGS is monitored by the board against a number of performance targets which support the delivery of the Scottish Government's national performance framework. These targets and their trajectories are set out in NGS's 2016-20 Corporate Plan.

89. The board is kept well-informed of performance across all areas of activity. Each meeting of the Audit & Risk Committee receives a corporate KPI report. Performance is reported on a traffic light system covering NGS's key indicators. Performance reports contain information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance. We attend the Audit & Risk Committee and review papers received by members to gain an insight into how well performance is scrutinised.

90. We concluded that NGS has a satisfactory performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Capital Projects

91. NGS has a number of ongoing capital projects, including the extension of the Scottish National Gallery, the Mind the Gap Project and the National Collections Centre project.

92. During 2016/17, NGS invited tenders for the extension of the Scottish National Gallery ("SNG"). When tenders were received, it was identified that the cost of the planned works would exceed the budgeted amounts. In April 2017, there

Value for money is concerned with using resources effectively and continually improving services.

was a joint meeting of the Audit & Risk and Major Capital Projects Committees, followed by a full Board meeting in May 2017.

- 93.** NGS is committed to continuing with the extension and redevelopment of the SNG. As a result, NGS is in the process of redesigning the extension works and will require to submit fresh planning applications for a redesigned extension.
- 94.** There is a risk of slippage in capital projects, mainly the SNG project, with potential implications for cost and timescale. The Board of Trustees instructed an independent review of this project. We will monitor the outcome of this review as part of our 2017/18 audit.

National performance audit reports

- 95.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of reports which are of direct interest to the board. These are outlined in [Appendix 4 \(page 32\)](#) accompanying this report.
- [*The National Fraud Initiative in Scotland*](#) – June 2016
 - [*Supporting Scotland's economic growth*](#) – July 2016
 - [*Superfast broadband for Scotland: a progress update*](#) – August 2016
 - [*Scotland's new financial powers*](#) – September 2016
 - [*i6: a review*](#) (Review of Police Scotland's i6 IT system) – March 2017.
 - [*Managing new financial powers: an update*](#) – March 2017
- 96.** NGS does not have arrangements in place for considering and reviewing Audit Scotland's national reports. Management has agreed to present relevant Audit Scotland national reports to its Audit & Risk Committee in future.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page no.	Issue/risk	Recommendation	Agreed management action/timing
9-10	<p>1. Recognition of Liabilities</p> <p>We identified four misstatements relating to the recognition of liabilities, totalling £666,000. This is due to management's policy of matching income to expenditure.</p> <p>This is not permitted by the SORP.</p>	<p>NGS should comply with the requirements of the SORP and ensure that they recognise income in the year in which it is received and expenditure in the year in which it is incurred. Particular reference should be made to SORP chapter 5.</p>	<p>During 2017-18 management will conduct a detailed review of the issues arising as a result of this policy and will propose a way forward in discussion with Audit Scotland.</p> <p>Responsible Officer - Valerie Urquhart, Head of Finance</p> <p>Timescale - January 2018</p>
11	<p>2. Heritage Assets Register</p> <p>NGS has capitalised a total of £197.9m heritage assets at 31 March 2017. NGS manages its heritage assets using its Mimsy asset register. However, it is not possible to obtain a breakdown of heritage assets capitalised in the accounts, with corresponding values.</p> <p>There is not an overall reconciliation between Mimsy and the total of capitalised heritage assets. As such, there is a risk that heritage assets capitalised may have been sold, transferred, lost, stolen or damaged and therefore should no longer be recognised in the Balance Sheet.</p>	<p>Management should investigate how to obtain a list of all heritage assets capitalised on the Balance Sheet, with the capitalised cost and to match it with the artworks in the MIMSY system.</p>	<p>Management will consider how to reconcile a consolidated list of capitalised heritage assets with the Mimsy heritage asset register.</p> <p>Responsible Officer - Valerie Urquhart, Head of Finance</p> <p>Timescale - January 2018</p>



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

12	<p>3. Presentation and Disclosure</p> <p>We identified a number of presentational and disclosure points in our review of the accounts.</p> <p>There is a risk that NGS's accounts do not comply with the Charities' SORP, the FReM or the SPFM.</p>	<p>Management should complete the NAO checklist, which is a useful aide memoire when preparing the trustees' annual report and financial statements.</p>	<p>Management will continue to review changes in accounting policy on an incremental basis, considering new transactions and known updates to accounting policy types. We will obtain expert advice as necessary.</p> <p>Responsible Officer - Valerie Urquhart, Head of Finance</p> <p>Timescale - January 2018</p>
14	<p>4. Existence of Staff</p> <p>NGS does not confirm the continuing existence of its staff. This is a particular risk given the large number of seasonal staff employed during the summer months. This is a key control to ensure that all staff on the payroll exist and there are no "ghost" employees.</p>	<p>NGS should introduce a control to check the existence of its staff. This would mitigate the risk of payments being made to individuals who do not work for NGS.</p>	<p>Management will consider implementation of a regular check of staff on the payroll by each responsible manager. This process can be incorporated into the monthly 'people pack' process.</p> <p>Responsible Officer - Paul Gilfillan, Head of Human Resources and OD</p> <p>Timescale - January 2018</p>
18	<p>5. Medium to Long-term budgeting and financial planning</p> <p>Management prepared high-level financial budgets for a three-year period (2017/18-2019/20) with detailed budgets for 2017/18.</p> <p>These forecast excess of expenditure over income in 2018/19 and 2019/20.</p>	<p>Management should embed scenario planning and sensitivity analysis within their planned 5 year budgets to model the impact of different assumptions.</p> <p>Management should continue to refine these budgets and implement plans to manage forecast excess of expenditure over income.</p>	<p>This is work in progress. Management have been using sensitivity analysis to review the forward financial position at NGS for many years. Business plans have also been prepared and discussed with board members which look at the longer term position. As part of the 2017-18 budget setting process, a three year projection was included in the Audit and Risk Committee papers and plans noted for a full review in 2017-18. This process has commenced with the preparation of an NGS Trading 5 year plan, a 5 year capital projection and 5 year core budget projections are being presented to the A&R in August 2017 for discussion and agreement of next steps.</p> <p>Responsible Officer - Valerie Urquhart, Head of Finance</p> <p>Timescale - Ongoing</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing
20	<p>6. Training for Trustees</p> <p>NGS does not routinely offer training to its trustees after their initial induction. Training is useful to assist trustees in understanding their role and responsibilities.</p>	<p>NGS should offer training to its trustees to assist them in fulfilling their role. This is particularly important when trustees join new committees. The need for training should be considered as part of trustees' annual appraisals.</p>	<p>Management will discuss with the newly appointed Chair, and will propose a course of action</p> <p>Responsible Officer - Elaine Anderson, Head of Planning and Performance</p> <p>Timescale - January 2018</p>
20	<p>7. Governance Statement Assurance Statements</p> <p>The SPFM requires senior management in central government bodies to prepare written assurance statements and internal control checklists to provide the Accountable Officer with sufficient assurance on governance arrangements.</p>	<p>NGS should comply with the requirements of the SPFM by requiring senior management to complete assurance statements and internal control checklists.</p>	<p>Management has agreed to implement a process through which senior management provides written assurances to the Director-General.</p> <p>Responsible Officers - Valerie Urquhart, Head of Finance/Elaine Anderson, Head of Planning and Performance</p> <p>Timescale - January 2018</p>
21	<p>8. Review of policies and procedures</p> <p>During our audit, we identified that two of NGS's policies and procedures have not been reviewed for some time.</p> <p>There is a risk that these policies are no longer fit for purpose.</p>	<p>NGS should review its policies and procedures regularly, ideally annually, to ensure they are fit for purpose.</p>	<p>A full review of all policies is underway following the recent security audit and the forthcoming revised Data Protection legislation. It is intended that all policies will be reviewed every 3 years in future. This work is ongoing and will take around 9-10 months to complete.</p> <p>Responsible Officers - Elaine Anderson, Head of Planning and Performance</p> <p>Timescale - June 2018</p>
22	<p>9. Transparency</p> <p>NGS publishes heavily-redacted board minutes on its website. It does not publish any other board or committee papers or minutes on its website. NGS does not have a documented rationale for this approach.</p>	<p>NGS should keep this area under review and consider whether there is scope to enhance transparency. This could include publishing board and committee papers online.</p>	<p>Management will review the policy and document the rationale.</p> <p>Responsible Officers - Elaine Anderson, Head of Planning and Performance</p> <p>Timescale - January 2018</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the trustees' annual report and financial statements and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We substantively tested a sample of journals. No issues were identified.</p> <p>We reviewed management's estimates.</p> <p>We substantively tested a sample of payables and receivables. As outlined in paragraph 24, we identified issues with management's recognition of accruals, deferred income and provisions. These misstatements were not adjusted. However, these are not material for the purposes of our audit opinion.</p> <p>Refer to Appendix 1 point 1.</p>
<p>2 Risk of fraud over income and expenditure</p> <p>NGS receives a significant amount of income in addition to Scottish Government funding (2015/16 - £7.164m). The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<p>Carried out analytical procedures on income and expenditure streams.</p> <p>Substantively tested revenue and expenditure transactions focused on the areas of greatest risk.</p> <p>Carried out audit work on the National Fraud Initiative matches.</p>	<p>We substantively tested a sample of income and expenditure.</p> <p>We reviewed the key controls covering income and expenditure.</p> <p>We undertook a review of NGS's NFI arrangements.</p> <p>No instances of fraud were identified.</p>
<p>3 Accounting treatment for grants</p> <p>Under the Charities Statement of Recommended Practice ("SORP") accounting framework, charities are required to recognise the full amount of grant income (where grants do not impose performance</p>	<p>Focused testing of material grant income at year-end to ensure revenue recognised in line with the Charities SORP.</p> <p>Review latest Charities</p>	<p>We substantively tested income and expenditure.</p> <p>We performed substantive testing of accruals, deferred income and provisions.</p> <p>We performed cut-off testing.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>related conditions) immediately when there is evidence of entitlement. NGS should not defer such grant income.</p> <p>The outgoing auditors, PwC, noted in their 2015/16 report that total deferred income was £0.483m last year i.e. the value of income which potentially should have been recognised in year. This was below the materiality set by the auditors.</p> <p>Nevertheless, this presents a risk that grant income may not be accounted for in accordance with the SORP accounting framework in 2016/17.</p>	<p>SORP accounting requirements.</p>	<p>We identified issues with management's recognition of accruals, deferred income and provisions. These misstatements were not adjusted</p> <p>However, these are not material for the purposes of our audit opinion.</p> <p>Refer to Appendix 1 point 1.</p>
<p>4 Estimation and judgements - Property Revaluation</p> <p>NGS's accounting policy states that land and buildings are revalued every 5 years. This revaluation is due to take place in 2016/17. There is a significant degree of subjectivity in the measurement and valuation of these properties (£94m - 2015/16).</p> <p>Management are considering how the expenditure on the Mind the Gap project will be treated in the financial statements. We will review this to ensure that only appropriate costs are capitalised.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of property revaluations.</p> <p>Focused substantive testing of Mind the Gap additions to ensure they meet criteria for capitalising.</p>	<p>No issues were identified with the revaluation of property.</p> <p>We identified a misstatement in the recognition of the Mind the Gap provision.</p> <p>Refer to Appendix 1 point 1.</p>
<p>5 Accruals Overstatement</p> <p>In 2015/16, PWC's audit testing identified a £1.1m overstatement of the accruals balance. PWC reported that "Management believe that this balance relates to purchase orders that have been raised (the majority during 2010-2013 and relating to the capital expenditure on the Portrait Gallery) but then never matched to an invoice, however without a full detailed review of this balance, which would be a very time consuming exercise, it is not possible to fully evidence this."</p> <p>The result of this misstatement is an overstatement of creditors and an understatement of reserves of</p>	<p>During 2016/17, we will review this balance and take action to clear any historical balances. We anticipate that any required accounting adjustments will be reflected in the 2016/17 financial statements</p> <p>We will substantively test this as part of our financial statements' audit to ensure that this has been accounted for correctly.</p>	<p>We reviewed management's assessment of this misstatement and the restatement. These have been processed accurately.</p> <p>No significant issues identified.</p> <p>Refer to paragraphs 29-30.</p>

Audit Risk	Assurance procedure	Results and conclusions
£1.1m.		
<p>6 Group Accounts</p> <p>NGS prepares group accounts that include its subsidiary company, NGS Trading Company Limited. However, NGS doesn't consolidate its charitable foundation, National Galleries of Scotland Foundation ("the Foundation") which was created in 2012. The previous auditors, PWC, agreed with management's assessment that no consolidation of the Foundation was required, as NGS didn't control the Foundation. In this first year of our audit appointment, we will need to assure ourselves this approach is correct.</p>	<p>We will meet with the Chief Operating Officer and Head of Finance to understand the background to the creation on the Foundation to assist with our understanding.</p>	<p>We met with senior staff and reviewed the relationship between NGS and the Foundation.</p> <p>We are content that, in 2016/17, NGS did not exercise control over the Foundation, as required by SORP paragraph 24.15. Therefore, we agree with management's decision not to consolidate the Foundation this year. We will continue to assess NGS's relationship with the Foundation throughout the remainder of our audit appointment.</p> <p>Refer to paragraphs 32-33</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>7 Financial Sustainability and Financial Management</p> <p>NGS has medium-term financial plans in place until 2019/20.</p> <p>However, after the current year, NGS is projecting overspends against budget. As such, NGS continues to face a risk over its financial sustainability in the coming years due to uncertainty over future funding allocations and income sources.</p>	<p>Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Review budget monitoring and medium term financial plans, following the approval of the 2017/18 budget.</p>	<p>We note that management has forecast a small surplus in its 2017/18 budget, with overspends forecast in 2018/19 and 2019/20.</p> <p>NGS operated within its grant in aid budget for 2016/17.</p> <p>Refer to Appendix 1 point 5.</p>
<p>8 Disaster Recovery and Business Continuity Plans</p> <p>NGS has a Business Continuity Plan and Disaster Recovery Plan. However, the IT arrangements in these plans do not include sufficient detail and require to be updated. This has been delayed until NGS upgrades its IT infrastructure.</p> <p>This should be a priority given recent instances of cyber attacks in the public sector.</p>	<p>We will monitor NGS's progress in developing Business Continuity and Disaster Recovery Plans. We will review these once they are available.</p> <p>We will seek to place reliance on Internal Audit's review of IT Security and Business Continuity Management.</p>	<p>We placed reliance on Internal Audit's review of ICT and cybercrime.</p> <p>Internal audit identified significant weaknesses and provided limited assurance in its report.</p> <p>Refer to paragraphs 80-82.</p>

Appendix 3

Summary of unadjusted misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £33,000.

Misstatements were noted during our audit testing were not corrected in the financial statements. Cumulatively these misstatements are below our performance materiality level as explained in [Exhibit 2 \(page 8\)](#). We are satisfied that these misstatements do not have a material impact on the financial statements.

No.	Account areas	Statement of Financial Activities		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Expenditure		(366)		
	Provisions			366	
2	Deferred Income			105	
	General Fund				(105)
3	Deferred Income			100	
	Expenditure		(100)		
4	Accrual			95	
	General Fund				(95)
	Net impact		(466)	666	(200)

Notes:

Entry 1 relates to a provision for the Mind the Gap project that was incorrectly recognised in 2016/17. However, construction work did not take place until 2017/18. As such, this shouldn't have been recognised in 2016/17. As such, the provision and corresponding expenditure should be reversed.

Entry 2 relates to Creative Scotland deferred income received two years ago, which should have been recognised in the year of receipt. As such, the deferred income should be reversed and take to reserves.





















Entry 3 relates to deferred income received in respect of the Friends' scheme. Income and expenditure has been recognised in 2016/17 for this, however the expenditure won't take place until 2017/18. As such, the deferred income should be reversed as should the expenditure incorrectly recognised in 2016/17.

Entry 4 relates to a Shared Services accrual in respect of money provided by the SG some years ago that should have been recognised in year. As such, the correcting entry is to take this income to reserves and reverse the deferred income.

Appendix 4

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

National Galleries of Scotland

2016/17 Annual Audit Report

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