

National Galleries of Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

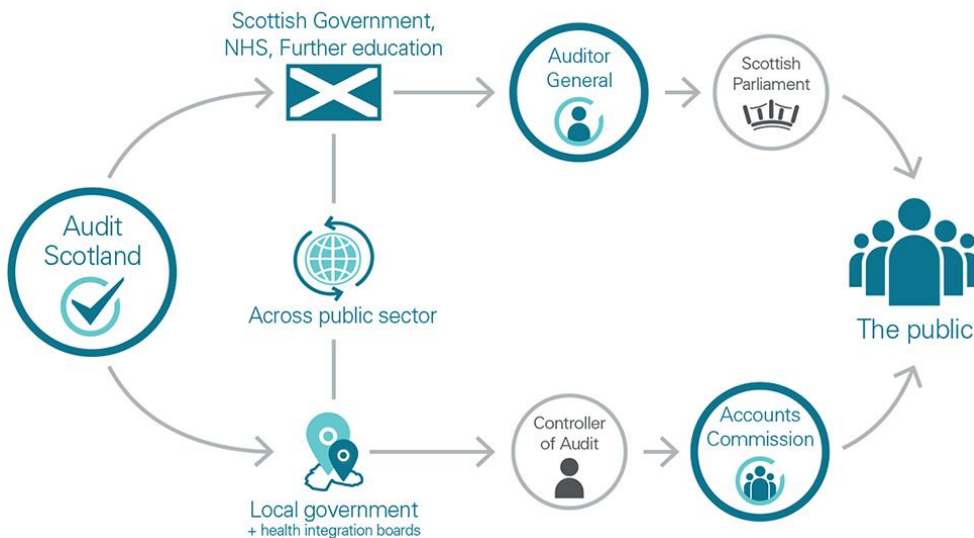
Prepared for the National Galleries of Scotland and the Auditor General for Scotland

11 September 2018

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

2017/18 trustees' annual report and financial statements

- 1 The financial statements of National Galleries of Scotland (NGS) for 2017/18 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 We concluded that NGS has satisfactory arrangements in place for financial management.
- 4 Systems of internal control operated effectively in 2017/18.

Financial sustainability

- 5 There are no significant concerns about the overall financial position of NGS.
- 6 NGS has a high-level four year financial plan and intend to have a five year financial plan with more detail, which is in line with good practice.

Governance and transparency

- 7 NGS has largely effective governance arrangements in place that support scrutiny of decisions made by the board. However, management should continue to address the ICT issues as part its preparation for Cyber Essentials.
- 8 NGS is largely open and transparent in the way it conducts its business. However, there is some scope for improvement in publication of board and committee minutes and papers.

Value for money

- 9 NGS has a satisfactory performance management framework in place.

Introduction

1. This report summarises the findings from our 2017/18 audit of National Galleries of Scotland (NGS).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 27 February 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:

- an audit of the NGS trustees' annual report and financial statements.
- consideration of the four audit dimensions that frame the wider scope of public audit 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 2017/18 have been:

- a review the NGS's main financial systems
- an audit of NGS's 2017/18 Trustees' Annual Report and Financial Statements ("the Accounts") including the issue of an independent auditor's report setting out our opinions
- consideration of the four audit dimensions.

4. NGS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing Accounts that are in accordance with the accounts direction from the Scottish Ministers. The Accounts include the following:

- Trustees' annual report
- Statement of trustees' and accountable officer's responsibilities
- Governance statement
- Financial statements and supporting notes.

5. NGS is also responsible for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

6. Our responsibilities as independent auditors are outlined in the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the Accounts. We also review and provide conclusions on the effectiveness of the performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability. 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. This report raises matters from the audit of the Accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during normal audit work, and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £22,560 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

11. Our aim is to add value to NGS. We aim to help NGS promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both NGS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

13. 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 2017/18 trustees' annual report and financial statements



Main judgements

The financial statements of NGS for 2017/18 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.

Audit opinions on the annual report and accounts

14. The Accounts for the year ended 31 March 2018 were approved by the board on 10/09/2018. We reported within our independent auditor's report that in our opinion:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the trustees' annual report, including the governance statement, has been prepared in accordance with the Charities Statement of Recommended Practice ("SORP") and is consistent with the financial statements.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

15. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of Accounts for audit

16. We received the unaudited Accounts on 22/06/2018 in line with our agreed audit timetable. The working papers were largely of a good standard. 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 required assurance statement and submitted to the National Audit Office (NAO) by the 30 September 2018 deadline.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process. These risks had the greatest effect on the overall audit strategy, the allocation of staff resources to the

audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the Accounts was carried out during the planning phase of the audit. This was based on 1% of gross assets using 2016/17 audited Accounts. Specifically, we assess the materiality of uncorrected misstatements, both individually and collectively when determining their impact on the Accounts.

21. On receipt of the 2017/18 Accounts we reviewed our materiality bases and concluded that they remained appropriate (see [Exhibit 2](#)).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£3.388 million
Performance materiality	£1.694 million
Reporting threshold	£34,000

Source: Audit Scotland

How we evaluate misstatements

22. There were no material adjustments to the unaudited financial statements arising from our audit.

23. There were two misstatements that exceeded our reporting threshold that management did not adjust. These are historic transactions, which we reported in our 2016/17 Annual Audit Report and detailed in Exhibit 3 (issue 1). The total value was £165,000, which resulted in an understatement of net assets of £165,000. This is shown in [Appendix 3a](#).

24. The total effect of corrected misstatements above our reporting threshold is shown in [Appendix 3b](#) and detailed in Exhibit 3 (issues 2-5). This resulted in a decrease in net income and a decrease in net assets of £72,000 (increase of £217,000 less decrease of £145,000).

25. It is our responsibility to request that all misstatements other than those below the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from management and materiality. Management does not propose to adjust for the two misstatements in Exhibit 3, issue 1 (below) and considers that the existing accounting treatment reflects the substance of the underlying transactions. The amounts are not considered material in the context of the financial statements.

Significant findings from the audit in accordance with ISA 260


26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. 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](#) has been included.

27. These findings include our views about significant qualitative aspects of the NGS's accounting practices including:


- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the Accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Historic Liabilities</p> <p>NGS recognised the following historic liabilities, which we reported in our 2016/17 annual audit report. Both of these transactions took place before the current SORP was introduced.</p> <ul style="list-style-type: none"> • Creative Scotland (CS) Deferred Income £71,000: This funding was received in 2014/15 as part of a contemporary art project. The balance of unspent funds was to be used for the legacy of the initial project. NGS has deferred this income. However, it should have been recognised as income in the Statement of Financial Activities in the year of receipt, as required by SORP paragraphs 5.10, 5.11 and 5.27. • Shared Services Accrual £94,000: NGS received funding from the Scottish Government (SG) several years ago for joint projects with the National Library of Scotland (NLS). NGS recognised the income in the year of receipt and accrued the same level of expenditure in the same year. However, this expenditure hasn't been incurred. As such, this accrual should not be recognised in NGS's Balance Sheet. A liability should only be recognised if 	<p>Management did not adjust the Accounts to correct these misstatements.</p> <p>CS Deferred Income - Management considers the existing accounting treatment reflects the substance of the underlying transaction. Management will work with CS to agree a pattern of expenditure for these funds in 2018/19 to therefore allow the income to be recognised in 2018/19.</p> <p>Shared Service Accrual – Management consider the existing accounting treatment reflects the substance of the transaction. A project is currently being approved for which the funds will be used during 2018/19.</p> <p> Recommendation b/f 1 (refer to Appendix 1, Action Plan)</p>

Issue	Resolution
<p>NGS has committed to paying this money and the amount is certain.</p> <p>As a result, net assets have been understated by £165,000.</p>	
<p>2. Heritage Asset Acquisition</p> <p>NGS purchased a painting at auction during 2017/18. This was purchased for £223,000, including the buyer's premium. However, upon receipt, NGS valued it internally at £400,000 and included it in the Balance Sheet at this valuation.</p> <p>SORP paragraph 18.12 states that heritage assets should be measured initially at either cost or, if donated, valuation. As such, as this was bought on the open market, we believe that this asset should have been capitalised at purchase price, which represents the fair value of the asset, in accordance with the SORP.</p> <p>The effect of this was to overstate the value of Heritage Assets and Income from Donations by £177,000.</p>	<p>Management agreed to adjust the Accounts to recognise this acquisition at cost. We reviewed the adjustment and confirmed that this has been processed accurately.</p> <p>Management advised that they rarely buy heritage assets at auction. There were no other significant auction purchases in 2017/18.</p> <p>Management has confirmed that all acquisitions on the open market will be capitalised at cost. However, donations and part-donations will continue to be capitalised at valuation. We consider this to be in accordance with the SORP requirements.</p>
<p>3. Deferred Income - Donation - £95,000</p> <p>NGS received a donation from a third party, which it proposed to use towards the creation of the Scottish National Gallery Project. NGS initially recognised this as deferred income in the first draft NGS accounts.</p> <p>The SORP states (paras 5.10, 5.12 and 5.27) that:</p> <ul style="list-style-type: none"> income from donations is recognised when there is evidence of entitlement to the gift, receipt is probable and its amount can be measured reliably – para 5.10 entitlement to donations arises immediately upon receipt, unless there are terms or conditions which must be met before the charity is entitled to the resources – para 5.12. donation without conditions should not be deferred, even if the resources are received in advance of the expenditure on the activity funded by them – para 5.27 <p>However, there were no conditions attached to this donation. As such, it should have been recognised upon receipt. This resulted in an understatement of income, net income and net assets of £95,000 and an overstatement of deferred income by £95,000.</p>	<p>Management agreed to adjust the Accounts to correct this in 2017/18.</p> <p>We reviewed the adjustment and confirmed that it has been processed accurately.</p>
<p>4. Provision - £50,000</p> <p>NGS recognised a £50,000 provision in the first draft accounts. This related to a specialist contractor, who NGS expects to undertake work 2018/19.</p> <p>However, as defined in SORP para 10.77, a provision is a liability where the amount or timing of</p>	<p>Management agreed to adjust the Accounts to correct this in 2017/18.</p> <p>We reviewed the adjustment and confirmed that this has been processed accurately.</p>

Issue	Resolution
<p>settlement is uncertain. A provision should only be recognised when there is a present obligation at the reporting date as a result of a past event. As the contractor's work was due to take place in 2018/19, there was no present obligation at the Balance Sheet date.</p> <p>As such, this provision should not have been recognised in the financial statements. This resulted in an overstatement of expenditure and liabilities and an understatement of net income and net assets of £50,000.</p>	
<p>5. Depreciation</p> <p>In the first draft accounts. The wrong useful life for one of the buildings had been applied in calculating depreciation. This resulted in an understatement of depreciation by £38,500.</p>	<p>Management agreed to adjust the Accounts to correct this in 2017/18.</p> <p>We reviewed the adjustment and confirmed that it has been processed accurately.</p> <p>We also substantively tested the remaining useful lives of NGS's buildings to confirm that the correct useful lives had been used for these. No issues were identified from this review.</p>
<p>6. Settlement Agreements</p> <p>NGS entered into two settlement agreements during 2017/18. The total value of the compensatory payments was £5,000. Management approved these settlement agreements.</p> <p>However, the Scottish Public Finance Manual requires NGS to notify the Scottish Government of all settlement agreements and seek formal approval prior to entering into a settlement agreement.</p> <p>Management believed there was a £10,000 delegated authority under the Framework Agreement with the Scottish Government. They believed that this allowed NGS to approve settlement agreements below £10,000 without notifying or seeking SG approval.</p>	<p>Management has discussed the position regarding delegated authority with the Scottish Government and the approval process is not clear. Whilst management is required to report such transactions to SG, the approval process for this level of transaction requires to be clarified with SG.</p> <p>NGS has now notified the Scottish Government of these settlement agreements.</p> <p>NGS will work with the SG Sponsor and HR teams to clarify the process for future years.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>

Source: Audit Scotland

Heritage Assets Register

28. NGS has capitalised £200.371m of heritage assets at 31 March 2018. NGS capitalises heritage assets purchased since 1 April 2000 and carries these assets at cost. This is in accordance with the Government Financial Reporting Manual (FRM).

29. NGS manages its heritage assets using its Mimsy asset register. In our [2016/17 Annual Audit Report](#), we reported that it was not possible to obtain a breakdown of all capitalised heritage assets.

30. Management has now spent considerable time to obtain a breakdown of all heritage asset additions capitalised in the financial statements (i.e. those acquired since 2000). We are pleased to report that this process is now largely complete. Our sample testing did not identify any issues. Management is considering how to

maintain this asset listing going forward, which may include recording the capitalised value of each asset in the Mimsy asset register.

31. Internal Audit undertook a review of Acquisitions and Disposals. They concluded that there was reasonable assurance over the process for managing heritage assets, with a number of areas of good practice highlighted.

Restatement

32. NGS has a wholly-owned subsidiary, the NGS Trading Company, which pays its profits to NGS under gift aid.

33. The NGS Trading Company has adopted the requirements of Financial Reporting Exposure Draft (FRED) 68, which are not yet in force. Early adoption of the FRED was taken on the advice of the Trading Company's auditors. FRED 68 requires payments from a subsidiary to a parent to be paid as a distribution to owners from reserves. As this was paid after the Balance Sheet date, this should not be accrued at year-end.

34. Both the NGS Trading Company and NGS restated their accounts. This resulted in a restatement of Debtors and Net Assets of £266,341 at 31/3/17. We reviewed this restatement in the NGS Group Accounts and confirmed that this has been processed accurately.

NGS Foundation

35. In our Annual Audit Plan, we noted that NGS does not consolidate its charitable foundation, National Galleries of Scotland Foundation (the Foundation) which was created in 2012.

36. This year, we met with management to assess NGS's relationship with the Foundation. We substantively tested a sample of grants paid by the Foundation to NGS. At year-end, NGS made a grant payment of philanthropic income to the NGS Foundation of £310,000.

37. We are content that, in 2017/18, 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.

Follow up of prior year recommendations

38. We have followed up actions agreed in 2016/17 to assess progress with implementation. We have reported progress of these prior year actions in [Appendix 1](#). They are identified by the prefix b/f (brought forward).

39. Nine agreed actions were raised in 2016/17. Of these:

- three have been fully implemented
- four have been partly actioned
- two have not yet been actioned.

40. Overall NGS has made some progress in implementing these actions. For actions not yet implemented, revised responses and timescales have been agreed with management, as set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

We concluded that NGS has satisfactory arrangements in place for financial management.

Systems of internal control operated effectively in 2017/18.

Financial performance in 2017/18

41. The main financial objective for NGS 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 financial sustainability and to support its charitable objectives.

42. NGS has reported an outturn of £16.307m, with a £0.01m overspend against its resource Departmental Expenditure Limit (DEL) and an underspend of £0.68m against its capital DEL. The financial performance against DEL is shown in [Exhibit 4](#).

43. During the year, NGS jointly purchased the McKinnon Collection with National Libraries of Scotland (NLS). NLS was awarded £0.3m of additional grant in aid (GIA) to fund this joint purchase. NGS has recognised £0.15m of this additional GIA within its capital budget. We are content with this accounting treatment.

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

Exhibit 4

Performance against DEL in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	12.895	12.970	12.980	0.010
Capital DEL (including purchase grant)	4.450	4.110	3.417	(0.693)
Total DEL	17.345	17.180	16.307	(0.683)

Source: NGS's Grant in Aid Return to Scottish Government

Budgetary processes

44. We reviewed NGS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, Audit and Risk Committee papers and attendance at meetings we confirmed that senior management and trustees receive regular, timely and up to date financial information on the financial position. In particular, from attendance at audit and risk committees, we note that trustees provide a good level of challenge to management on performance against budget.

45. We concluded that NGS has good budgetary monitoring and control arrangements that allow members and officers to carry out effective scrutiny of its finances.

Systems of internal control

46. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that NGS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

47. We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit that could affect NGS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

48. As noted in Appendix 1, NGS has now addressed the two issues that we identified during 2016/17. It has now implemented effective controls to confirm the existence of staff and management review of journals.

Financial capacity

49. NGS has a small finance team. Two senior officers are key to the production of the Accounts.

50. Each year we assess the financial capacity of NGS. We concluded that there are suitably qualified and experienced officers leading NGS's finance team, with sufficient financial skills to manage NGS's day to day resources, and to produce the Accounts in accordance with the accounting framework.

Part 3

Financial sustainability



Main judgements

There are no significant concerns about the overall financial position of NGS.

NGS has a high-level four year financial plan and intend to have a five year financial plan with more detail, which demonstrates good practice.

Financial planning

51. NGS presented its 2018/19 budget to the February 2018 Audit and Risk Committee for scrutiny. It was subsequently reviewed and approved by the March 2018 board. This has forecast a small surplus of £0.04m.

52. NGS's 2018/19 GIA settlement includes resource GIA of £13.55m (an increase of £0.65m). NGS calculated that changes to the pay policy have increased 2018/19 costs by £0.75m. NGS's capital GIA has increased by £0.75m to £5m.

53. There is a further £4.60m of non GIA revenue income, including self-generated income, exhibition income, grant funding and trading company income. NGS has budgeted for large increases in exhibition income and non GIA grant income in 2018/19. NGS has forecast a £0.30m (60%) increase in non GIA grant funding. NGS's forecast 18/19 exhibition income is £0.51m (56%) higher than in 17/18. Management will need to ensure that these challenging income targets are met to achieve a balanced budget.

2017/18 financial position

54. The Consolidated Balance Sheet summarises what is owned and owed by NGS. This shows total charity funds – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.

55. The financial statements show that NGS has net assets of £333.8 million, an increase of £7.2 million, which is largely attributable to

- an increase in the value of tangible assets of £4.59m, due to indexation increases and additions.
- an increase in the value of heritage assets of £2.47m, due to additions.
- a decrease in current debtors of £3.05m. This is because NGS had accrued a large amount of income for the purchase of the Monarch of the Glen painting in 16/17, which was a large, one-off purchase.

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.

56. NGS's income has decreased from £33.53m to £24.77m. This is largely due to a reduction of £10.81m in income from donations, which again was mainly due to the acquisition of the Monarch of the Glen painting in 2016/17.

Medium to long term financial planning

57. 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.

58. NGS has developed a high-level four-year financial plan from 2018/19 to 2021/22. This forecasts a small surplus in the first three years, with a forecast £0.51m deficit in 2021/22.

59. NGS is currently developing a new corporate strategy, which it anticipates will be implemented from 2019/20 onwards. In tandem with this, NGS is developing a more-detailed longer term financial plan, which will include enhanced financial planning in the medium to long term. Trustees have requested that management extends its financial planning to cover a full 5-year projection.

60. We consider that the use of a five-year financial plan demonstrates good practice.

EU withdrawal

61. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

Good practice

62. The *Code of Audit Practice 2016* encourages auditors to identify good practice which in their opinion is worth sharing more widely. We consider that NGS's intention to use a five-year financial plan demonstrates good practice. We note that management plans to further refine this following the introduction of a new corporate strategy from 2019/20.

Part 4

Governance and transparency



Main judgements

NGS has largely effective governance arrangements in place that support scrutiny of decisions made by the board. However, management should continue to address the ICT issues as part of its preparation for Cyber Essentials.

NGS is largely open and transparent in the way it conducts its business. However, there is some scope for improvement in publication of board and committee minutes and papers.

Governance arrangements

63. The National Galleries of Scotland Act 1906, as amended by the National Heritage (Scotland) Act 1985, is the enabling legislation for NGS.

64. The Accountable Officer is Sir John Leighton, Director-General of NGS. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Senior Management Team. During 2017/18, there were changes to the structure of the Senior Management Team.

65. NGS had 10 trustees on its board during 2017/18. Benny Higgins was appointed as the new chair from 1 July 2017 onwards. The board has five sub-committees, including the Audit & Risk Committee. During 2017/18, NGS established a new Ethics Committee. NGS co-opted a qualified accountant onto the Audit and Risk Committee, however he left during 2017. NGS has asked the SG to consider appointing new trustees with recent financial experience, which is necessary for the Audit and Risk Committee.

66. From attendance at Audit and Risk Committees, and review of board papers, we consider that papers for trustees are well-prepared, and provided in sufficient time for review and consideration by trustees. We concluded that trustees provide a good level of challenge to management, which demonstrates effective scrutiny.

67. We note that there is now a standing item at board and committees to ask trustees and those attending meetings to declare interests, which is a key governance requirement.

68. In our [2016/17 Annual Audit Report](#), we noted that trustees are offered On Board training as part of their induction. However, no other training is offered to trustees. We recommended that NGS should consider offering further training to its trustees.

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.



Refer to Appendix 1, Recommendation b/f 6.

69. We conclude that NGS's arrangements are largely appropriate and adequately support good governance and accountability.

Transparency

70. Transparency means that the public has access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

71. We concluded that NGS conducts its business in an open and transparent manner. However, we believe there are some areas where it could improve current arrangements:

- NGS publishes heavily-redacted board minutes on its website. 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 has held biennial public meetings in the past. However, the last meeting took place in 2014.



Refer to Appendix 1, Recommendation b/f 9.

Risk management

72. NGS implemented a revised risk management policy and guidelines in May 2017. We reviewed these for compliance with the SPFM and confirmed that these were largely compliance. However, NGS should develop risk appetites for different categories of risk.

73. Internal Audit undertook a detailed review of risk management processes and procedures. They concluded that there was reasonable assurance over risk management arrangements and identified a number of areas for improvement, including the need for:

- further detail in the risk management guidelines,
- risk management training for managers
- management to consider how assurance is obtained in relation to the risks identified.



Recommendation 2

NGS should develop its risk management arrangements, as recommended by internal audit.

Internal audit

74. The internal audit function was carried out by TIAA during 2017/18, which was the last year of their appointment. From 2018/19 onwards, Henderson Loggie has been appointed as internal auditor.

75. We reviewed NGS's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors). In 2017, TIAA received an external assessment that concluded that it operates in accordance

with the Public Sector Internal Audit Standards (“PSIAS”) and has sound documentation standards and reporting procedures in place.

76. We concluded that internal audit’s work and arrangements were largely in accordance with PSIAS. However, we noted that TIAA had not developed an internal audit charter, as required by PSIAS.

77. We took a largely substantive approach to our audit. As such, there are no specific internal audit reviews which relate directly to our work on the financial statements. We did, however, consider their findings as part of our wider dimension work. In particular, we reviewed internal audit’s reports on Risk Management; Follow-up of ICT Report; Acquisition and Loans; Capital Projects; and Development.

Governance Statement

78. The FReM states that NGS must prepare an annual governance statement within the Accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation’s strategic objectives.

79. The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.

80. We concluded that the 2017/18 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and matters.

81. We are pleased to note that management has now implemented internal control checklists as required by the SPFM. Management commented favourably upon the improved governance and additional assurance that this measure has provided.

National Fraud Initiative

82. 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 irregularity.

83. We reported in our 2016/17 Annual Audit Report that management had completed all recommended matches. Management presented the self-assessment checklist to the August 2017 Audit & Risk Committee.

84. We understand that the Fraud Policy is being reviewed. 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 for prevention and detection of fraud and error

85. We have reviewed the arrangements in place to maintain standards of conduct including the Fraud and Whistleblowing Policies, as well as the Staff and Trustees’ Codes of Conduct. During 2017/18, management provided its biennial anti-fraud and anti-bribery training to all budget holders and staff involved in procurement. We consider that the use of such training demonstrates good practice.

86. We concluded that there are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. We note that the Whistleblowing Policy hasn't been updated since 2011. Management advised that there is an ongoing review of all policies, and this will be updated during 2018/19.

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

Cyber security

88. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. NGS is working towards Cyber Essentials accreditation, and is addressing actions raised by internal audit during 2016/17.

89. In Spring 2018, internal audit did a follow-up review of NGS's progress against its 2016/17 recommendations. Internal audit found that of the 12 recommendations, 3 have been fully addressed, 7 have been partially addressed and one has not been addressed. In particular, they found that:

- Work to review all existing IT policies in line with industry standards is still in progress.
- Subsequent to the completion of the developments related to the ICT infrastructure, a full disaster recovery test should be undertaken. Planning for the disaster recovery test has not yet started but will follow completion of the project.
- A number of legacy systems remain, which have unsupported software. Upgrades to these systems should be prioritised.
- Cyber training has to be rolled out to all staff.

90. We concluded that NGS is strengthening its cyber resilience arrangements, however a number of matters remain outstanding. NGS plans to achieve Cyber Essentials accreditation from the Scottish Government in due course, once it has addressed the issues identified in the internal audit report.



Recommendation 3

NGS should continue to address the issues raised by internal audit review of ICT and business continuity management, including a full disaster recovery test. This will allow NGS to work towards Cyber Essentials accreditation.

General Data Protection Regulation

91. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998 (DPA). As a Regulation, all EU member states must implement it in the same way. GDPR sets out more requirements than the DPA and has introduced new and significantly changed data protection concepts.

92. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to

comply with new GDPR data handling arrangements could result in NGS incurring significant fines.

93. We reviewed NGS's arrangements to comply with GDPR. NGS has appointed a compliance manager, who is responsible for overseeing GDPR. NGS has provided training at team meetings, and plans to do a GDPR briefing for all staff in August/September 2018. Updates on compliance with GDPR have been presented to the Audit & Risk Committee and Board. NGS has reported good progress in compliance with GDPR requirements, with some issues ongoing, such as reviewing contracts with suppliers. NGS should continue to work to ensure that it achieves full compliance with GDPR as soon as possible.

Good practice

94. The [*Code of Audit Practice 2016*](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. We consider that the presentation of biennial anti-fraud and anti-bribery training to all budget holders and staff involved in procurement demonstrates good practice.

Part 5

Value for money



Main judgements

NGS has satisfactory performance management framework in place.

95. 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 work. Therefore, we did not undertake any specific value for money work this year.

Performance management

96. 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.

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

98. We noted that the Scottish Government approved a 2017/21 Future Plan during 2017/18. However, NGS decided not to implemented this. Management advised that this was in agreement with the SG. Following the appointment of a new Chair during 2017/18, management is in the process of developing a new long-term corporate plan, which will be implemented from 2019/20 onwards.

99. The board is informed of performance across all areas of activity. Management presents a financial and non-financial performance report to each meeting of the audit and risk committee. Performance is reported on a traffic light system covering NGS's key indicators. Performance reports contain information for each responsibility for detailed review and scrutiny of performance lies with the Audit & Risk Committee which meets quarterly. We regularly attend the audit and risk committee and review papers to gain an insight into how well performance is scrutinised.

100. 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.

National performance audit reports

101. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18

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

several reports were published which may be of interest to the National Galleries of Scotland. These are outlined in [Appendix 4](#).

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Settlement Agreements</p> <p>During 2017/18, NGS entered into two settlement agreements with staff. The compensatory payments totalled £5,000. The SPFM requires management to notify the SG of all settlement agreements and obtain approval prior to offering a settlement agreement. This did not occur in these cases, as NGS believed that there was a £10,000 delegated authority to enter into settlement agreements.</p> <p>Risk</p> <p>There is a risk that NGS has not complied with the SPFM.</p>	<p>NGS should seek retrospective approval for the two settlement agreements entered into during 2017/18.</p> <p>In future, NGS should seek approval for all settlement agreements prior to offering these to staff. NGS should notify the Scottish Government of all settlement agreements concluded.</p> <p>Exhibit 3, Issue 6</p>	<p>NGS has completed the required documentation to notify the SG of these settlement agreements retrospectively. Discussions have taken place with the SG to clarify the required procedures as this is not clear-cut.</p> <p>NGS will work with the SG to seek clarity and procedures will be reviewed for future agreements.</p> <p>Responsible Officer: Chief Operating Officer/Head of Human Resources</p> <p>Target Date: March 2019</p>
2	<p>Risk Management</p> <p>Internal audit identified scope for improvement in NGS's risk management arrangements.</p>	<p>NGS should develop its risk management procedures in further detail, including</p> <ul style="list-style-type: none"> • further detail in the risk management guidelines, • risk management training for managers • management to consider how assurance is obtained in relation to the risks identified. • NGS to consider risk appetite. <p>Paragraph 73-74</p>	<p>Discussed with Audit & Risk Committee and Senior Management Team following audit in March 2018. To be discussed further with SMT and consideration given to contracting out training for staff as there is no expertise in house.</p> <p>Responsible Officer: Senior Management Team/Head of Planning & Performance</p> <p>Target Date: March 2019</p>
3	<p>ICT and Business Continuity Review</p>	<p>NGS should continue to address the issues raised by internal audit review of ICT and business continuity</p>	<p>ICT: NGS has an active Information Security Project which incorporates actions from the internal audit, the SG Cyber</p>



No. Issue/risk

Internal audit did a follow-up of ICT and Business Continuity during 2017/18. They identified that progress had been made, but a number of issues remain outstanding.

NGS needs to address these issues as part of their aim to achieve Cyber Essentials accreditation from the Scottish Government.

Risk

Identify the risk.

Recommendation

management, including a full disaster recovery test. This will allow NGS to work towards Cyber Essentials accreditation. [Paragraph 89-91](#)

Agreed management action/timing

Resilience Strategy (CRS) and the Cyber Essentials Pre-Assessment (CEPA).

Management advised that:

- 8 of 12 audit actions are complete. 6 of 8 CRS actions are complete.
- NGS have documented but not categorised all the recommendations from CEPA.
- Cyber Essentials external penetration, anti-virus and malware testing results passed or have been appropriately remediated.
- NGS has prioritised relevant projects to ensure the earliest possible compliance with Cyber Essentials. These include a virtual desktop rollout and legacy system upgrades, which are in progress.

Responsible Officer: Chief Operating Officer / Head of IT

Target Date: April 2019

Business Continuity

Work will continue to develop the business continuity plan as appropriate.

Responsible Officer: Chief Operating Officer / Director of Security / Chief Technology Officer.

Target Date: Ongoing.

Follow up of prior year recommendations

**b/f
1**

Recognition of Liabilities

In 2016/17, we identified four misstatements relating to the recognition of liabilities, totalling £666,000. This was due to management's policy of matching income to expenditure.

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.

Partly Actioned – NGS has reversed deferred income in respect of two of these liabilities in 2017/18. However, we identified issues with the recognition of liabilities, as outlined in Exhibit 3, issues 1 and 3.

We are content that the unadjusted misstatement (Exhibit 3, issue 1)



No. Issue/risk

Recommendation

Agreed management action/timing

This is not permitted by the SORP.

Further details can be found in our [2016/17 Annual Audit Report](#), which is available on our website.

do not have a material effect on the NGS financial statements.

Management should ensure that it recognises income in accordance with the SORP.

Management comment. Two of the liabilities were in place before the implementation of the current SORP. Management's position is that for the two remaining transactions the income should not be recognised until NGS is allowed by CS to spend the monies. NGS also believes that it should recognise the shared services accrual as the monies are shared with NLS and to recognise this in NGS's income and reserves would be incorrect.

Management considers that the existing accounting treatment for these transactions represents the substance of these legacy transactions. It is anticipated that the funds for these transactions will be utilised in 2018-19 thus no further action is needed.

NGS will continue to review all transactions and review accounting treatment to ensure it is appropriate and in line with the SORP.

Responsible Officer: Director of Finance

Target Date: March 2019

b/f 2 Heritage Assets Register
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.

There is not an overall reconciliation between Mimsy and the total of

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.

Fully Actioned – NGS has obtained a full listing of heritage assets, which it has reconciled to its Mimsy asset register.


No. Issue/risk
Recommendation
Agreed management action/timing

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.

**b/f
3**

We identified a number of presentational and disclosure points in our review of the accounts. There is a risk that NGS's accounts do not comply with the Charities' SORP, the FReM or the SPFM.

Management should complete the NAO checklist, which is a useful aide memoire when preparing the trustees' annual report and financial statements.

Partly Actioned – We observed an improvement in the disclosures in the Governance Statement

However, management did not complete a disclosure checklist. We identified some areas of non-compliance with the presentational and disclosure requirements of the SORP, for example under heritage assets.

NGS should review the SORP in detail and in advance of preparing the 2018/19 trustees' annual report and financial statements. NGS should complete the NAO Checklist as a useful aide memoire when preparing the trustees' annual report and financial statements.

NGS Management Response: During the preparation of the accounts, the NGS team referred to the SORP, SG Finance and other accounting guidance and updates, including the AS annual accounts technical update. The NGS team attempted to use the NAO checklist, which was not updated from previous years – however the programme would not run on NGS's system. The NGS team consider their work to be appropriate and are not aware of any material changes to the initial disclosure in the accounts.

NGS will consider the use of the NAO checklist for future years if relevant.

Responsible Officer: Director of Finance

Target Date: March 2019



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 4	<p>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>Fully Actioned – NGS has now introduced a control within pack issued by Human Resources. Biannually, Heads of Service and Team Leaders are required to physically verify their own staff numbers and validate their respective headcount figure. This process confirms the existence of staff and helps to mitigate the risk of payments being made to individuals who do not work for NGS.</p>
b/f 5	<p>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>Partly Actioned – NGS has developed a four year financial plan from 2018/19-2021/22. Management is seeking to develop more detailed 5 year financial plans once the revised corporate strategy is implemented (expected 2019/20).</p> <p>Responsible Officer: Senior Management Team / Director of Finance</p> <p>Target Date: March 2019</p>
b/f 6	<p>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>Not Actioned – NGS plans to offer training to new trustees, who are expected to join later in 2018. However, no training has been offered to existing trustees. Noted that all trustees have been on the Board for at least 4 years. We will review this need again early in 2019 once the new trustees are in place.</p> <p>Responsible Officer: Head of Planning and Performance</p> <p>Target Date: March 2019</p>
b/f 7	<p>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</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>Fully Actioned – NGS has now implemented assurance statements for senior management.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	sufficient assurance on governance arrangements.		
b/f 8	<p>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>Partly Actioned – NGS is reviewing its procedures during the next 12 months, as part of the refresh of policies under GDPR. We note that committee terms of reference have been reviewed.</p> <p>We will revisit this during our 2018/19 audit.</p> <p>Responsible Officer: Head of Planning and Performance</p> <p>Target date: March 2019</p>
b/f 9	<p>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>Not Actioned – NGS has not made progress on the publication of board/committee papers and minutes.</p> <p>NGS should present this to the board and ask trustees to consider this formally. This will be raised with the Chairman and Board later in 2018.</p> <p>Responsible Officer: Head of Planning and Performance</p> <p>Target date: March 2019</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 annual report and accounts 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 Exhibit 3, 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>2 Risk of fraud over income and expenditure</p> <p>NGS receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice expands the ISA assumption to include a risk of fraud over aspects of expenditure for public sector bodies.</p>	<p>Detailed testing of income and expenditure, focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative data 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>We substantively tested a sample of payables and receivables. As outlined in Exhibit 3, 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>3 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current</p>	<p>Substantive testing of liabilities and year-end indexation of land and buildings.</p>	<p>No issues were identified with the indexation of property.</p> <p>We identified a misstatement with the acquisition of a heritage</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>assets, liabilities (provisions, deferred income and accruals) and donated heritage asset additions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Substantive testing of liabilities and cut-off testing of income and expenditure.</p> <p>Substantive testing of valuation of donated heritage assets.</p> <p>Review of the work of management's expert valuers.</p> <p>Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</p>	<p>asset, which management agreed to adjust (Exhibit 3, issue 2).</p> <p>We identified a misstatement with NGS's provisions, which management agreed to adjust – (Exhibit 3, issue 4)</p> <p>We reviewed NGS's accounting policies and recommended some presentational adjustments. Management decided not to implement all of these recommendations.</p>
<p>4 Heritage Assets</p> <p>NGS capitalised £197.9m heritage assets at 31 March 2017. NGS manages its heritage assets using its Mimsy asset register.</p> <p>In our 2016/17 Annual Audit Report, we identified that</p> <ul style="list-style-type: none"> there was not a reconciliation between the capitalised heritage asset valuation and the accounts. it is not possible to obtain a breakdown of heritage assets capitalised in the accounts, with corresponding values. <p>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>We will assess the arrangements put in place.</p> <p>Substantive testing of the heritage assets balance, including physical verification of a sample of assets.</p>	<p>NGS obtained a detailed breakdown of heritage asset additions and reconciled these to the Mimsy Asset Register.</p> <p>We substantively tested the completeness and existence of these asset listings by undertaking physical verification of assets. No issues were identified.</p> <p>Refer to para 28-31.</p>
<p>5 NGS Foundation</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. In 2016/17, we agreed with management's assessment that no consolidation of the Foundation was required, as NGS didn't exercise control over the</p>	<p>Meet with NGS management to obtain details of its involvement with the Charitable Foundation in 2017/18. Substantive testing of grant funding provided by the Charitable Trust to NGS. We will correspond with the Foundation's Company Secretary to inform our assessment.</p>	<p>We discussed the arrangements with management, and reviewed the composition of the NGS Foundation Board.</p> <p>We substantively tested a sample of income received from the NGS Foundation. No issues were identified.</p> <p>Refer to para 35-37.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Foundation, as defined in the Charities SORP.</p> <p>We will review NGS's relationship with the Foundation in 2017/18 to ensure that this approach remains correct.</p>		

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Financial sustainability</p> <p>NGS has medium-term financial plans in place until 2019/20.</p> <p>However, after the current year, NGS is projecting excess of expenditure over income. The Scottish Government announced lifting of the public sector pay cap, which may impact on NGS's pay policy. The Scottish Government has also announced that pay increases will be implemented in April, rather than August.</p> <p>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>Review budget monitoring and medium term financial plans, following the approval of the 2018/19 budget.</p> <p>Ongoing assessment of NGS's financial plans.</p>	<p>We reviewed NGS's budget and noted that there are high-level four-year financial plans in place.</p> <p>Refer to paras 57-60</p>
<p>5 Cyber Security</p> <p>In 2016/17, Internal Audit identified a number of weaknesses in NGS's ICT arrangements.</p> <p>The Scottish Government has issued a Public Sector Action Plan ('Cyber Essentials') which requires all public sector bodies to carry out work in relation to their cyber security arrangements. This will require NGS to carry out a comprehensive assessment and accreditation with Cyber Essentials Plus to demonstrate measures are in place to reduce this risk of cyber attacks.</p>	<p>Monitor ongoing work within the IT department to ensure the Public Sector Action Plan is being followed.</p> <p>Assess NGS's progress in updating Disaster Recovery and Business Continuity plans in respect of IT.</p> <p>Review Internal Audit's follow-up of ICT issues.</p>	<p>We reviewed Internal Audit's follow-up review of ICT. We met with the Chief Technology Officer.</p> <p>Internal audit identified that some progress has been made to address the issues they identified. However, a number of issues are still in progress and require to be completed.</p> <p>Refer to paras 88-90</p>

Appendix 3a

Summary of uncorrected misstatements

We report all uncorrected misstatements in the Accounts that are individually greater than our reporting threshold of £34,000 and request they be corrected.

The table below summarises misstatements that were identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements however we request that they be corrected.

No.	Account areas	Statement of Financial Activities		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Accruals			94	
	Expenditure		94		
2	Deferred Income			71	
	Income		71		
Net impact			165	165	

Notes:

Entry 1 relates to a Shared Services accrual in respect of money provided by the SG some years ago. Management confirmed that the income was recognised in the year of receipt but, as NGS does not have sole control of the spend of the funds, an associated liability was recognised. However, a liability should only be recognised if NGS has committed to paying this money and the amount is certain. As such, the correcting entry is to reverse the accrual.

Entry 2 relates to Creative Scotland deferred income received in 2014/15, which should have been recognised in the year of receipt. As such, the deferred income should be reversed and taken to reserves. In accordance with the SORP, this should have been recognised in year. This SORP was not in place at the time of receipt, however this should have been corrected upon the introduction of the new SORP.

Appendix 3b

Summary of corrected misstatements

We report all corrected misstatements in the Accounts that are individually greater than our reporting threshold of £34,000 and request they be corrected.

The table below summarises misstatements that were identified during our audit testing and have not been corrected by management.

No.	Account areas	Statement of Financial Activities		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Income from Donations	178			
	Heritage Assets				178
2	Income		95		
	Deferred Income			95	
3	Expenditure		50		
	Provisions			50	
3	Depreciation	39			
	Fixed Assets				39
Net impact		217	145	145	217

Notes:

Entry 1 relates to a misstatement in the valuation of a heritage asset bought at auction during 2017/18. Refer to Exhibit 3, issue 2.

Entry 2 relates to donation income that was received in 2017/18, but which was deferred in error. Refer to Exhibit 3, issue 3.

Entry 3 relates to a provision of £50,000 that should not have been recognised. Refer to Exhibit 3, issue 4.

Entry 4 relates to an error in depreciation. Refer to Exhibit 3, issue 5.

Appendix 4

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	Scotland's colleges 2017
		Jul	NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Central Government relevant reports

[Common Agricultural Policy Futures programme: further update](#) – June 2017

[Transport Scotland's ferry services](#) – October 2017

[Early learning and childcare](#) – February 2018

National Galleries of Scotland

2017/18 Annual Audit Report

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