

National Museums Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

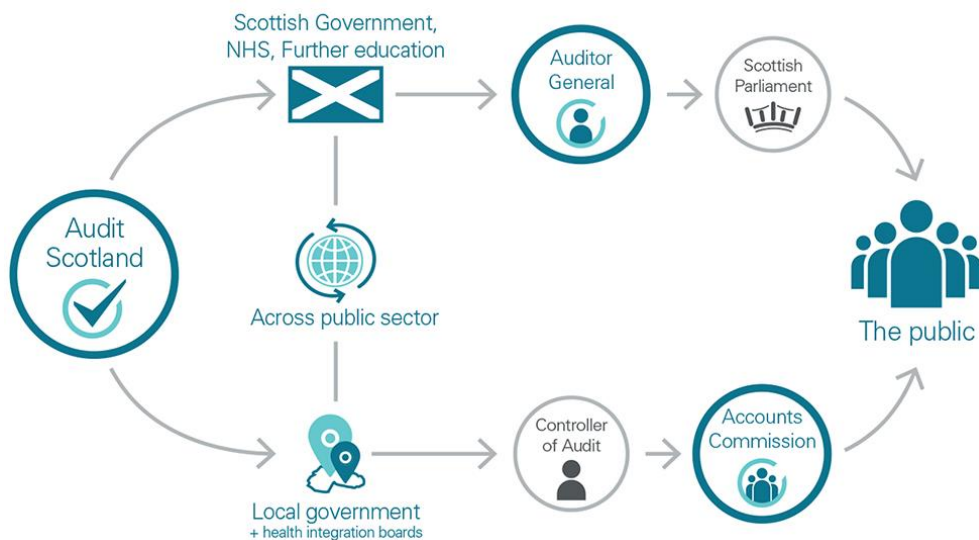
Prepared for the National Museums Scotland and the Auditor General for Scotland

3 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 annual report and accounts

- 1 The financial statements of National Museums Scotland (NMS) 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 accounts and prepared in accordance with legal requirements.

Financial management

- 3 We concluded that NMS has satisfactory arrangements in place for financial management.
- 4 Systems of internal control operated effectively during 2017/18 with scope for improvement in some areas.

Financial sustainability

- 5 There are no significant concerns about the overall financial position of NMS.
- 6 NMS has a high-level three year financial plan, supported by annual scenario and options appraisal.

Governance and transparency

- 7 We concluded that NMS has effective governance arrangements in place. Board minutes are published online and public annual review meetings are held. There is some scope for improvement in publication of board and committee minutes and papers. NMS feel current arrangements are appropriate.

Value for money

- 8 NMS has a good performance management framework in place.

Introduction

1. This report summarises the findings from our 2017/18 audit of National Museums Scotland (NMS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of the National Museums Scotland's annual report and accounts
 - 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 of the National Museums Scotland's main financial systems and controls thereof during an interim visit in March 2018
 - an audit of National Museums Scotland's 2017/18 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of the four audit dimensions.

4. National Museums Scotland has primary responsibility for ensuring the proper financial stewardship of public funds as well as the safe custody of national heritage assets. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The National Museums Scotland annual report and accounts includes the following:

- Trustees Annual Report
- Governance Section which includes the Statement of Accountable Officer's Responsibilities, Governance Statement and Independent Auditors' Report
- Consolidated financial statements and supporting notes.

5. National Museums Scotland 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 auditor 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 annual report and 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 annual report and accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our 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 £23,190 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 the National Museums Scotland by increasing insight into, and offering foresight on, financial sustainability, risk and performance, by identifying areas of improvement and by recommending and encouraging good practice. In so doing, we aim to help the board promote improved standards of governance, better management and decision making and more effective use of resources.

12. This report is addressed to both National Museums Scotland 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 annual report and accounts



Main judgements

The financial statements of National Museums Scotland for 2017/18 give a true and fair view of the state of the body's affairs and its income and expenditure for the year.

Expenditure and income were accounted for, and disclosed in accordance with applicable enactments and guidance.

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 annual report and accounts for the year ended 31 March 2018 are expected to be approved by the board on 19 September 2018. We reported within our proposed 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 and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.

15. Additionally, 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 annual report and accounts for audit

16. We received the unaudited financial statements on 25 June 2018 in line with our agreed audit timetable. The working papers were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

Whole of Government Accounts

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.

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.

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 taken 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 annual report and 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, regarding the annual report and accounts we assess the materiality of uncorrected misstatements, both individually and collectively.

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

Exhibit 2

Materiality values

Materiality level	Amount
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 2018. We have used gross assets as the basis for calculating materiality as a primary function of NMS 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.	£2 million
Performance materiality – This acts as a trigger point. If the aggregate of misstatements 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.	£1 million
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 2% of overall materiality.	£40 thousand

Source: Audit Scotland

How we evaluate misstatements

22. 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 senior officers and materiality.

23. We did not identify any adjusted or unadjusted misstatements above our reporting threshold of £40,000.

Significant findings from the audit in accordance with ISA 260

24. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance.

25. These findings include our views about significant qualitative aspects of the National Museums Scotland's accounting practices including consideration of:

- | | |
|---|---|
| • 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 annual report and accounts | • Disagreement over any accounting treatment or financial statements disclosure |

26. We can confirm that there were no significant matters in our 2017/18 financial statements audit to bring to your attention.

Heritage Assets Register

27. NMS has capitalised heritage assets of £10.7m as at 31 March 2018. NMS capitalises heritage assets purchased since 1 April 2001 and carries these assets at cost. This is in accordance with the Government Financial Reporting Manual (FRoM).

28. NMS manages its heritage assets using its Axiell Adlib collections management system. In our 2016/17 Annual Audit Report, we reported that it was not possible to reconcile the heritage assets on Adlib, to the list of capitalised assets disclosed in the financial statements.

29. In order to address this risk we undertook an assessment of the controls and processes over heritage assets during 2017/18 to determine if there was any audit risks. This work concluded that accreditation by the Arts Council provided assurance that the whole heritage assets at NMS were held securely and any losses or damage were adequately recorded. We note that this information allows finance to keep the capitalised asset listing up to date and free from misstatement.

NMS Charitable Trust

30. In our Annual Audit Plan, we noted that NMS does not consolidate its charitable trust, National Museums Scotland Charitable Trust (the 'Trust').

31. We are content that, in 2017/18, NMS did not exercise control over the National Museums Scotland Charitable Trust, as required by SORP paragraph 24.15. Therefore we agree with management's decision not to consolidate the Trust into the Group this year. We will continue to assess NMS's relationship with the Trust throughout the remainder of our audit appointment.

Follow up of prior year recommendations

32. 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).

33. Ten agreed actions were raised in 2016/17. Of these:

- 6 have been fully implemented
- 2 has been partially implemented
- 2 are no longer relevant

34. Overall National Museums Scotland has made good 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

National Museums Scotland has satisfactory arrangements in place for financial management.

Systems of internal control operated effectively in 2017/18 with scope for improvements in some areas.

Management is making good progress in addressing the cyber security weaknesses identified by Internal Audit.

Financial performance in 2017/18

35. The main financial objective for NMS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. NMS also has to self-generate income and manage costs over the long-term to ensure financial sustainability.

36. National Museums Scotland has reported an outturn of £22 million remaining within its overall budget for 2017/18 resulting in a break-even outturn. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2017/18

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	20.3	20.4	20.4	nil
Capital DEL	1.45	1.6	1.6	nil
Total DEL	21.75	22.0	22.0	nil

Source: National Museums Scotland 2017/18 financial statements

Budgetary processes

37. We reviewed NMS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports to Board, and Finance Committee meetings, Audit and Risk Committee (ARC) papers and attendance at ARC meetings we confirmed that senior management and trustees

receive regular, timely and up to date financial information on the financial position of NMS.

38. We concluded that National Museums Scotland has effective budgetary monitoring and control arrangements that allow trustees and management to carry out effective scrutiny of its finances.

Systems of internal control

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

40. We concluded that the controls tested were largely operating effectively with the exception of the following:

- Asset disposal – We identified that there is potential for research and conservation equipment such as digital cameras and microscopes to be disposed of without adequate controls in place to ensure Best Value is achieved.

Three cameras that were not yet fully depreciated with net book values totalling £9k were not available for inspection during audit. Management subsequently investigated, and provided assurance that NMS still held the equipment. However, it was found that there was no policy or procedure in place for disposing of assets.

We recommend that procedures are implemented to ensure that finance are notified of disposals in a timely manner and that equipment is disposed of in a manner that maximises Best Value.



Refer to Appendix 1, Recommendation 1.

- IT user access - During our interim audit work, we identified through penetration testing of the payroll system that there was potential for HR staff to have access to both the HR side of Cascade, as well as the Payroll side. This would introduce a potential risk of fraud, as HR staff would have opportunity to create 'ghost employees'. HR staff agreed with us and took action to rectify the user access to ensure that they had read-only access to the payroll side of Cascade. This action sufficiently rectifies this control weakness.
- Credit Note Controls - During our interim audit work we identified that no evidence is supplied to finance to support the issuing of credit notes on sales invoices by departments.

There is a risk that credit notes are raised in error resulting in misstatement of financial information.

Finance agreed with us and have introduced a mitigating control whereby evidence is obtained and stored to support credit notes. This action sufficiently rectifies this control weakness.

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

ICT controls

41. A review of ICT security arrangements was undertaken in addition to financial process controls as a result of cyber security weaknesses being identified by Internal Audit. Management have made good progress in addressing the recommendations made by Internal Audit, including the preparation of an ICT Strategy and ensuring user access to systems is reviewed regularly.

42. NMS are participating in the Scottish Government's Cyber Essentials initiative. Significant work is progressing, with the help of external consultants, to identify weaknesses and develop strategies to ensure NMS is secure from threats and their ICT infrastructure is fit for purpose. This is due to complete by October 2018 resulting in a Cyber Resilience Action Plan which will supersede the current ICT Strategy. We will monitor progress of this during our 2018/19 audit.

Financial capacity

43. NMS has a small finance team. Two senior officers are key to the production of the financial statements.

44. Each year we assess the financial capacity of NMS. We concluded that there are suitably qualified and experienced officers leading NMS's finance team, with sufficient financial skills to manage the day to day resources of NMS, 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 National Museums Scotland.

Financial planning

45. The Board approved the 2018/19 budget in March 2018 with a resource allocation of £22.4 million (£22.0 million in 2017/18). The increase is to help with the additional staff costs as a result of the change to Scottish Government (SG) Pay Policy as well as the increased estates management costs due to the collapse of Carillion.

46. £4.3m of commercial and philanthropic income is budgeted for 2018/19. The 2018/19 budget shows a breakeven position. Looking forward, 2019/20 has a forecast deficit of £436k, and 2020/21 has a forecast deficit of £785k. These deficits are largely as a result of assuming static funding from SG, but forecasting increasing staff costs.

2017/18 financial position

47. The Consolidated Balance Sheet summarises what is owned and owed by National Museums Scotland. 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.

48. The financial statements show that National Museums Scotland has net assets of £196.4 million, an increase of £15.1 million largely attributable to:

- Increase in the value of fixed assets by indexation of £15.9 million
- Increase in heritage assets of £2.4 million as a result of additions
- These increases are largely offset by shift from operating under a net income position of £2.2m in 2016/17 to net expenditure of £800k in 2017/18.

Medium to long term financial planning

49. 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.

50. We recognise that National Museums Scotland is mainly funded from Scottish Government (SG) budget allocation through Grant-in-aid and this is determined on an annual basis by the SG. This should not preclude National Museums Scotland from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.

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.

51. NMS has developed a high-level three-year financial plan from 2018/19 to 2020/21. A small surplus of £1 thousand is forecast for 2018/19, with a forecast £436 thousand deficit in 2019/20 and £785 thousand deficit in 2020/21. Management has considered that financial planning beyond three years does not provide any significant benefit in managing the organisations finances.

52. During 2017/18 the Board considered scenario planning and options appraisal to identify the pressures it was facing, allowing them to consider what remedial action could be taken to address these pressures. Management has made a commitment to continue this activity annually.

Ending of public sector pay cap

53. Staff costs amount to c60% of NMS's expenditure. The changes to SG Pay Policy to end the public sector pay cap has a major impact on NMS's financial sustainability. The SG Budget for 2018/19 sees an increase in Grant in Aid to partially offset this increase, however the future is unclear as GiA settlements are only a year in advance.

EU withdrawal

54. 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.

Part 4

Governance and transparency



Main judgements

National Museums Scotland has effective governance arrangements in place that support scrutiny of decisions made by the board.

Management is making good progress in obtaining Cyber Essentials accreditation.

Governance arrangements

55. The National Heritage Act (Scotland) 1985 confirms that NMS's Board has responsibility to:

- Care for, preserve and add to the objects in their collections
- Secure that the objects are exhibited to and interpreted for the public
- Secure that the objects are available to persons seeking to inspect them in connection with study or research
- Generally promote the public's awareness, appreciation and understanding of matters agricultural, archaeological, architectural, artistic, cultural, environmental, historical, industrial, military, scientific and social, both by means of the collections and by such other means, including collaboration with other institutions, as we consider appropriate
- Provide education, instruction and advice and carry out research.

56. There are 13 trustees plus an appointed Chair on NMS's Board. All Board members are appointed by the Scottish Ministers.

57. The role of the Board is to provide leadership, direction, support and guidance to ensure NMS delivers and is committed to delivering its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers¹. The Board is supported in its governance role by the following committees:

- Audit and Risk Committee
- Personnel and Remuneration Committee
- Finance Committee
- Nominations and Governance Committee

58. This committee structure is unchanged from last year. The Audit and Risk Committee and the Personnel and Remuneration Committee have delegated responsibility for certain matters under the Scheme of Delegation.

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.

¹ Framework Document between the Scottish Government and the National Museums Scotland was updated in 2017/18

59. Responsibility for delivering the Strategy and Operational objectives is devolved to the Director, supported by Senior Management. The Director is also the Accountable Officer for the use of public resources.

60. From our attendance at Audit and Risk Committees, we note that committee papers are well prepared in advance of each meeting, and sufficient time is made available at each meeting to allow appropriate discussion of each item on the agenda. Committee members are well-prepared and provide effective scrutiny.

Transparency

61. Transparency means that the public have 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.

62. The Board meetings are held in private, with minutes published online and a public annual review meeting held. Board and other committee papers are not made publicly available.

63. National Museums Scotland should consider improving the transparency of its functions to aide scrutiny by members of the public and wider society.



Refer to Appendix 1, Recommendation b/f 10.

Risk management

64. We have reviewed risk management arrangements in place, including a review of the Risk Management Policy & Framework.

65. The Risk Management Policy defines risk, outlines the principles NMS will follow, allocates responsibilities for the management of risk (for various categories of staff and management) and outlines the appetite NMS has for risk i.e. amount of risk it is willing to accept.

66. The Accountable Officer and Board of Trustees are jointly responsible for maintaining a sound system of risk management and internal control. The Executive Team is responsible for reviewing the strategic risk register bi-annually. Heads of Departments are responsible for maintaining and monitoring appropriate risk registers for their activities.

67. The Audit and Risk Committee has a responsibility to scrutinise and provide assurance to the Board on the adequacy of its risk management processes. This includes reviewing the Strategic Risk Register and agreeing the Risk Appetite.

68. We have concluded that appropriate risk management arrangements are in place. The related policies and procedures, including the regular update of risk registers, is deemed to be sufficient for NMS.

Internal audit

69. The National Museums Scotland's internal audit function is carried out by KPMG. Each year we consider internal audit work to avoid duplication of effort. We carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures, quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

70. We reviewed internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) and concluded that they complied with PSIAS.

71. Internal Audit's review of Expenses and Board Governance noted improvement actions, including updating the expenses policy. However, none were deemed to be material for the purposes of our audit.

Governance Statement

72. Under the Treasury's Financial Reporting Manual (FRoM), National Museums Scotland must prepare an annual governance statement within its 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. The assurance process includes senior officers in the Senior Management Team providing the Accountable Officer with signed Certificates of Assurance and internal control checklists. These signed statements and checklists provide the Accountable Officer with additional assurance over the adequacy and effectiveness of the systems of internal control which operate in each of the officer's departments.

74. 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 key matters.

National Fraud Initiative

75. 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.

76. We reported in our 2016/17 Annual Audit Report that management had completed all recommended matches, but NFI progress and outcomes not being reported to Audit and Risk Committee. Management have committed to report future NFI information to the Audit and Risk Committee.

77. During 2017/18 management updated its Fraud Policy. We reviewed this updated policy and found it to comply with Scottish Public Finance Manual guidance. Additionally, we witnessed this updated policy being presented to the Audit and Risk Committee and found good levels of engagement and scrutiny by members.

78. One small matter identified was that the Staff Code of Conduct should refer to this updated Fraud Policy as it currently contains no mention of fraud.



Refer to Appendix 1, Recommendation b/f 6.

Cyber security

79. 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.

80. We concluded that National Museums Scotland is actively strengthening its cyber resilience arrangements with the development of its Cyber Resilience Action Plan. NMS completed its Cyber Essentials pre-assessment by the required date of the end of March 2018 and is on track to achieve full compliance with Cyber Essentials accreditation by the end of October 2018.

General Data Protection Regulation

81. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act (DPA) 1998. 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.

82. 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 National Museums Scotland incurring significant fines.

83. We undertook an assessment of NMS's preparations before the implementation of GDPR on the 25th May and found that a thorough assessment of the organisation's information holdings had been conducted and the implications this had on their ability to comply with GDPR.

84. Key elements of NMS's progress against GDPR requirements include:

- The creation of an Information Asset Register
- Appointing a designated Data Protection Officer
- New privacy notices have been published on the NMS website
- Staff training roadshows were conducted informing staff of their responsibilities

Part 5

Value for money



Main judgements

National Museums Scotland has a good performance management framework in place.

Performance management

85. 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 National Museums Scotland agree to undertake local work in this area.

86. The performance of National Museums Scotland is monitored by the Board against several performance targets which support the delivery of the Scottish Government's national performance framework. These targets and their plans are set out in the National Museums Scotland's Strategic Plan.

87. The board is kept well informed of performance across all areas of activity and responsibility for detailed review and scrutiny of operational and financial performance lies with the Board which meets quarterly.

88. Each meeting of the Board receives a Director's Report to the Trustees. Performance is reported using a traffic light system covering 10 key indicators. Performance reports contain detailed information for each performance target including four years of trend analysis, specific performance issues and actions being taken to improve performance.

89. Performance as at June 2018 found a number of indicators that hadn't met target, primarily being commercial and philanthropic income falling below target due to delays in sale of Dental Hospital and capital projects.

90. We concluded that National Museums Scotland has a good 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

91. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2017/18 several reports were published which may be of interest to the National Museums Scotland. These are outlined in [Appendix 4](#).

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

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Disposal of Equipment</p> <p>We identified that there is potential for research and conservation equipment such as digital cameras and microscopes to be disposed of without adequate controls in place to ensure Best Value is achieved.</p> <p>Three cameras that were not yet fully depreciated with net book values totalling £9k were not available for inspection during audit. Management subsequently investigated, and provided assurance that NMS still held the equipment. However, we found that there was no policy or procedure in place for disposing of assets.</p> <p>We conclude that there is a risk of operational assets being disposed of improperly because no formal procedures or policy are in place to guide departments on how to dispose of assets.</p>	<p>NMS should design and implement a robust but straightforward process that all asset holding departments can follow to ensure assets are disposed of in a manner that achieves Best Value, keeps finance informed and reduces the risk of fraud.</p>	<p>The Finance Procedures will be updated to incorporate a Disposal of Equipment Procedure.</p> <p>Responsible Person: Director of Finance and Planning</p> <p>Date: October 18.</p>

Follow up of prior year recommendations

b/f 1	<p>Carbon Reduction Commitment Accrual</p> <p>NMS has recognised its 2015/16 carbon reduction commitment costs in 2016/17. It has not accrued any costs for 2016/17.</p> <p>Risk</p>	<p>Management should ensure that there is an accrual for carbon reduction commitments going in future years.</p>	<p>Fully actioned - The Carbon Reduction Commitment for 2016/17 was paid in 2017/18, and the 2017/18 amount due was accrued into 2017/18 satisfactorily.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	Carbon reduction commitment costs are not being recognised in the correct financial year.		
b/f 2	<p>Heritage Asset Register</p> <p>NMS maintains a database called Adlib for some of its collection, including some capitalised heritage assets. However, this does not contain financial information and there is no reconciliation between Adlib and the capitalised heritage assets.</p> <p>Risk</p> <p>Heritage assets capitalised may have been lost, stolen or damaged and therefore should not be recognised in the Balance Sheet.</p>	<p>Management should introduce a reconciliation between Adlib and the capitalised heritage assets in its financial statements to ensure that all capitalised heritage assets are still in use and are held by NMS.</p>	<p>No longer relevant - Our work on the controls in place over Heritage Assets found suitable controls are in place over Heritage Assets, as evidenced by accreditation administered by the Arts Council for the safe custody of Heritage Assets. As part of this accreditation, adequate records are kept of Heritage Asset locations, condition and whether any loss or damage has occurred.</p> <p>This information is supplied to Finance annually allowing them to maintain their capitalised Heritage Asset Register, ensuring that it is complete and accurate.</p>
b/f 3	<p>Journal Authorisation</p> <p>There is no review/authorisation of journals raised by finance staff.</p> <p>This poses a risk of fraud/error. This poses a particular risk given that the Finance Manager has super user access to a number of key financial systems.</p>	<p>Management should review journals on a regular basis to ensure that no erroneous or fraudulent journals are posted. The Finance Manager's super user access poses a particular risk of fraud.</p>	<p>Fully actioned - Management have implemented a new process and control to ensure that journals are reviewed appropriately.</p> <p>All journals are now submitted to the Director of Finance and Planning, and higher value journals, c£10k and over, are reviewed.</p> <p>This control is considered appropriate and sufficient for the purposes of NMS.</p>
b/f 4	<p>Existence of Employees</p> <p>There is no process to confirm the existence of employees.</p> <p>There is a risk that "ghost" employees are being paid. This is a particular risk given that NMS employs a number of seasonal staff during the summer months to cope with increased visitor numbers in its museum.</p>	<p>NMS should introduce a control to check the existence of its staff. This would mitigate the risk of "ghost" employees being paid.</p>	<p>No longer relevant - The budget setting process as it currently stands acts as a suitable control to determine the existence of employees.</p> <p>As part of the budget setting process, budget holders are supplied with lists of staff under their stewardship. They are required to provide Finance with a positive</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 5	<p>Access to Payroll System</p> <p>We identified that two of the ten user accounts should have been removed. One belonged to a member of the HR team who had recently left. The other member of staff, also a member of HR had changed their name and had two access accounts.</p> <p>There is a risk that unauthorised staff may access the payroll system.</p>	<p>User access should be reviewed regularly. When staff are leaving, controls should be in place to ensure that their user access rights are removed to prevent unauthorised access to the system.</p>	<p>assurance that the budget and staff allocations are adequate and appropriate.</p> <p>Fully actioned - The introduction of a new payroll system, Cascade, necessitated a review of payroll controls.</p> <p>This review covered user access to the payroll system, where an issue was identified, however this has now been rectified.</p>
b/f 6	<p>Review of Policies</p> <p>The Fraud Policy was last reviewed in September 2012.</p> <p>The Staff Code of Conduct was last reviewed in 2014.</p> <p>There is a risk that the Fraud Policy and Staff Code of Conduct does not meet NMS's current requirements.</p>	<p>Management should review its Fraud Policy and Staff Code of Conduct on a regular basis to ensure that it is designed to effectively manage the risk of fraud.</p>	<p>Partially actioned – We have reviewed the updated Fraud Policy and attended the Audit and Risk Committee when it was presented.</p> <p>Staff Code of Conduct is yet to be updated. Additionally, the current Code of Conduct makes no reference to fraud. A reference to the updated Fraud Policy should be included upon update.</p> <p>Management have committed to updating the Staff Code of Conduct during 2018/19.</p> <p>Responsible Person: Director of Finance and Planning</p> <p>Date: October 2018</p>
b/f 7	<p>National Fraud Initiative</p> <p>NMS does not report the outcomes of its NFI exercise to its senior management team or trustees. NMS has not completed the self-assessment questionnaire.</p>	<p>NMS should report the outcome of its NFI exercise to senior management and trustees. NMS should also complete the NFI self-assessment questionnaire and report this to its Audit & Risk Committee.</p>	<p>Fully actioned - Future NFI findings will be reported to the Audit and Risk Committee (ARC).</p> <p>We will monitor this going forward through attendance of ARC, or review of minutes.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f 8	<p>Financial Planning</p> <p>NMS's three-year financial plan shows a funding gap in 2018/19 and 2019/20. This shows a forecast funding gap of £208k in 2018/19 and £678k in 2019/20.</p>	<p>Management should seek to address these funding gaps. Management should seek to improve their financial planning by preparing sensitivity analysis and scenario planning.</p>	<p>Fully actioned - NMS continues to operate under financial pressures largely due to increasing staff costs and uncertain future Grant in Aid funding from Scottish Government.</p> <p>Our review of financial plans and documents noted that management consider pressures facing NMS, and potential options to alleviate these. However, they are finding it increasingly difficult to find additional funding streams, or reduce costs. Management have committed to carrying out a form of scenario planning annually to aide financial planning.</p> <p>We will continue to monitor financial planning arrangements at NMS throughout our audit appointment.</p>
b/f 9	<p>Risk management</p> <p>NMS does not have a documented risk management policy or procedure.</p> <p>The Scottish Public Finance Manual ("SPFM") requires that organisations determine their risk appetite and the overall risk management process should be reviewed at least once a year to deliver assurance that it remains effective.</p>	<p>NMS should develop a formal risk management policy and procedure, in line with the requirements of the SPFM.</p>	<p>Fully actioned - A risk management policy was developed and reviewed by the Audit and Risk Committee, and by Audit. This is considered suitable for the requirements of NMS.</p>
b/f 10	<p>Transparency</p> <p>NMS doesn't publish committee minutes or committee/board papers.</p>	<p>With increasing public expectations for more openness in the conduct of public business, NMS 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</p>	<p>Partially actioned - NMS should continue to consider improving the transparency of Board and other committee meetings to follow the trend of increasing transparency across the public and private sectors.</p> <p>Management advised that the board has previously</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
		committee papers and committee minutes.	considered this and is of the view that the current arrangements are appropriate for the effective conduct of its business which includes the publication of Board minutes and holding public annual review meetings. We will continue to monitor this throughout our appointment.

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		
1 Risk of management override of controls	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	We substantively tested a sample of journal entries and agreed to source documentation. There were no issues to report. We reviewed accounting policies in the financial statements. We have deemed these to be appropriate for NMS. We carried out testing of creditors and debtors balances, including accruals, to ensure they were posted to the correct financial year and were reasonable. There were no matters to report.
2 Risk of fraud over income & expenditure	Analytical procedures on income streams.	Sample testing and analytical analysis of income and expenditure transactions was satisfactory.

Audit Risk	Assurance procedure	Results and conclusions
<p>that, in accordance with ISA240, there is an inherent risk of fraud.</p> <p>The Code of Audit Practice expands the ISA assumption to require consideration of a risk of fraud over aspects of expenditure for public sector bodies.</p>	<p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Detailed substantive testing of expenditure transactions, focusing on the areas of greatest risk.</p> <p>Review management's progress on analysing National Fraud Initiative matches.</p>	<p>NMS are pro-active in investigation of data matches as part of the National Fraud Initiative. No fraud or error has been found in the latest exercise.</p>
3 Estimation and judgements		
<p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, provisions and potentially income. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>Estimations and judgements include;</p> <ul style="list-style-type: none"> • Military Museum VAT potential provision • Property indexed valuation • Deferred Income 	<p>Substantive testing of liabilities and year-end indexation of land and buildings.</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>Substantive testing of fixed asset revaluation by indexation, and accruals identified no issues.</p> <p>The accounting policy to capitalise only the cost of acquired heritage assets was deemed to be reasonable, as the valuation of donated heritage assets would likely be impossible or be very expensive to ascertain.</p>
4 New payroll system		
<p>A new payroll system, Cascade, has been implemented. There is an inherent risk to any key system change that misstatements and errors may occur.</p>	<p>Substantive testing of a payroll run to determine accuracy.</p>	<p>We reviewed the controls in place over the new payroll system, as well as substantive testing and analytical review of payroll transactions to determine that successful implementation has been achieved that ensures complete and accurate payroll records.</p> <p>We identified that HR staff had write access to the payroll system, however this was subsequently addressed by HR, reducing their access to read-only.</p> <p>Refer to b/f issue 5 in Appendix 1.</p>
5 Heritage Assets		
<p>NMS capitalised £8.3m heritage assets at 31 March 2017. NMS manages its heritage assets using its Ad Lib asset register.</p> <p>In our 2016/17 Annual Audit Report, we identified that there was not a reconciliation between the capitalised</p>	<p>Review of controls in place over heritage assets.</p> <p>Substantive testing of capitalised and non-capitalised heritage assets to ensure existence, completeness and valuation.</p>	<p>A review of the controls in place over the safe custody of heritage assets was performed to gain assurance that all heritage assets, capitalised or not, are managed in a manner to ensure their safety and preservation.</p> <p>We noted that accreditation with the Arts Council provides assurance</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>heritage assets and the total heritage assets held per the Ad Lib system.</p> <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>that NMS comply with best practice in the safe keeping and preservation of heritage assets.</p> <p>Substantive testing of heritage assets found no issues with regard to completeness of the asset register or existence of acquired assets.</p>

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

6 Financial sustainability

NMS has medium-term financial plans in place until 2019/20.

NMS's three-year financial plan shows a funding gap in 2018/19 and 2019/20. This shows a forecast funding gap of £208k in 2018/19 and £678k in 2019/20.

Following Scottish Government announcement that the public sector pay cap will be lifted, and brought forward from August to April, this places further financial pressures on the organisation.

UK withdrawal from the EU may impact on availability and cost of operational staff to NMS.

Scotland's new financial powers may impact on the budget process and settlement with the rest of the UK, potentially impacting on NMS's budget provision.

As such, NMS continues to face a risk over its financial sustainability in the coming years due to uncertainty over future funding allocations and income sources.

Monitor the financial position of NMS against budgets and forward looking plans.

Our review of budgets and financial plans found that NMS continues to operate under financial pressure, largely as a result of increasing staff costs due to a change in Scottish Government (SG) Pay Policy and uncertain future Grant in Aid settlements from SG.

Additionally the impending departure of the UK from the EU has potential to impact on NMS's ability to attract skilled staff.

Management are alert to these pressures and constantly seek ways to reduce them.

We will continue to monitor this risk.

7 Cyber Security

The Scottish Government has issued a Public Sector Action Plan ('Cyber Essentials') which












Monitor ongoing work within the IT department to ensure

Discussed with senior officers within NMS on the development of an updated ICT Strategy and

Audit Risk	Assurance procedure	Results and conclusions
<p>requires all public sector bodies to carry out work in relation to their cyber security arrangements. This will require NMS to carry out a comprehensive assessment and accreditation with the Cyber Essentials initiative to demonstrate measures are in place to reduce the risk of cyber attacks.</p>	<p>the Public Sector Action Plan is being followed.</p> <p>Monitor NMS's progress in updating Disaster Recovery and Business Continuity plans in respect of IT.</p>	<p>compliance with Scottish Government's Cyber Essentials initiative.</p> <p>Whilst the development of a new cyber resilience action plan is still ongoing, management have in place a plan to ensure all risks are identified and reflected in the strategy which includes the use of specialist external consultants.</p> <p>A review of business continuity arrangements are deemed reasonable.</p>

Appendix 3

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

[Managing the implementation of the Scotland Acts](#) – March 2018

National Museums Scotland

2017/18 Annual Audit Report

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