

# National Galleries of Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

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

27 August 2019

## 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

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## 2018/19 annual report and accounts

- 1** The financial statements of National Galleries of Scotland (NGS) and its group give a true and fair view of the state of affairs as at 31 March 2019 and its income and expenditure for the year; and have been properly prepared in accordance with the financial reporting framework.
- 2** The other information in the Trustees' Annual Report is consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Financial management

- 3** NGS has appropriate and effective arrangements in place for financial management.
- 4** Systems of internal control operated effectively in 2018/19.

## Financial sustainability

- 5** We concluded that NGS has appropriate and effective financial planning arrangements in place with the use of a high-level five-year financial plan which demonstrates good practice
- 6** Significant capital expenditure is planned for 2019/20 as the Scottish National Gallery (SNG) capital project progresses. Despite delays the project is expected to be completed by 2021.
- 7** We have no significant concerns about the overall financial position of NGS.

## Governance and transparency

- 8** NGS has satisfactory governance arrangements in place that support the scrutiny of decisions. Management should continue to address the ICT issues as part of its preparations for Cyber Essentials.
- 9** NGS is generally open and transparent in the way it conducts its business. There is scope for improvement in publication of board and committee minutes and papers.

## Value for money

- 10** There is a well-developed performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of National Galleries of Scotland (NGS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 26 February meeting of the Audit and Risk Committee. This report comprises the findings from our:
  - 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](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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3. The main elements of our audit work in 2018/19 have been:
  - a review of the NGS's main financial systems
  - an audit of NGS's 2018/19 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 of public audit.

## Adding value through the audit

### 4. We add value to NGS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

### 5. In so doing, we aim to help NGS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

### 6. 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 includes the following:

- Trustees' Annual Report
- Statement of Trustees' and accountable officer's responsibilities
- Governance Statement
- Financial statements and supporting notes.

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

### 8. Our responsibilities as independent auditor are established by 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.

### 9. As public sector auditors we give independent opinions on the accounts. Additionally, we conclude on:

- the appropriateness and effectiveness of the performance management arrangements
- the suitability and effectiveness of corporate governance arrangements
- the financial position and arrangements for securing financial sustainability.

### 10. 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](#).

### 11. 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 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.

- 12.** This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.
- 13.** 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 2018/19 audit fee of £23,010 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.
- 14.** 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](http://www.audit-scotland.gov.uk) in due course.
- 15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

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# Part 1

## Audit of 2018/19 annual report and accounts

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### Main judgements

**The financial statements of NGS and its group give a true and fair view of the state of affairs of NGS and its group as at 31 March 2019 and of its income and expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.**

**The other information in the trustees' annual report is consistent with the financial statements and prepared in accordance with the relevant legislation and directions made by Scottish Ministers.**

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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.

### Audit opinions on the annual report and accounts

- 16.** The annual report and accounts for the year ended 31 March 2019 were approved by the board on 09/09/2019. We reported within the independent auditor's report that:
- 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 issued by Scottish Ministers
  - 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.
- 17.** 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

- 18.** We received the unaudited annual report and accounts on 21/06/2019 in line with our agreed audit timetable.
- 19.** The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.
- 20.** Our audit identified a few minor presentational and disclosure issues which were discussed with management. These were adjusted and are now reflected in the final version of the annual report and financial statements.



## Whole of Government Accounts (WGA)

21. In accordance with the WGA guidance we completed the required assurance statement and submitted to the National Audit Office (NAO) by the 28 September 2019 deadline.

### Risk of material misstatement

22. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

23. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

### Materiality

24. 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 and involves considering both the amount and nature of the misstatement.

25. Our initial assessment of materiality was carried out during the planning phase of the audit. This was based on 1% of gross assets using 2017/18 audited accounts. With regards to the accounts, we assess the materiality of uncorrected misstatements both individually and collectively when determining their impact.

26. On receipt of the 2018/19 unaudited trustees' annual report and financial statements we reviewed our materiality bases and concluded that they remained appropriate (See Exhibit 2).

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## Exhibit 2

### Materiality values

Materiality level	Amount
Overall materiality	£3.472million
Performance materiality	£1.736 million
Reporting threshold	£35 thousand

Source: Audit Scotland

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### Significant findings from the audit in accordance with ISA 260

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.




28. The significant findings 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.

29. We have no significant findings to report around the qualitative aspects which include the accounting policies, accounting estimates and judgements.

### How we evaluate misstatements

30. There were no material adjustments to the unaudited trustees' annual report and financial statements arising from our audit.
31. There was two misstatement that exceeded our reporting threshold that were adjusted by management. The value of one adjustment was £0.567m which resulted in non-current assets being over stated by £0.567m and donated income being overstated by £0.567m. The second misstatement related to non-current assets being overstated by £0.750m. We identified this error during our interim work and management adjusted for this before the draft accounts were prepared.
32. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

## Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Donated Heritage Asset Acquisition</b></p> <p>A donated asset was capitalised at the wrong amount. The asset should have been recognised at £2.500m however NGS capitalised this at £3.067m.</p> <p>The effect of this was Heritage Assets and Income from Donations were overstated by £0.567m.</p>	<p>Management adjusted the accounts to recognise the donated asset at the correct value. We reviewed the adjustment and confirmed that this has been processed correctly.</p> <p> <a href="#">Recommendation 1</a> (refer appendix 1, action plan)</p>
<p><b>2. Heritage Asset Register</b></p> <p>During our Interim testing we identified a duplicate asset on the Heritage Asset Register. The value of the asset was £0.750m and it relates to the financial year 2012/13. Management advised this was due to the asset being recorded in MIMSY both prior to and at point of accession which crossed financial year-ends and with two different numbers. The acquisition process has now changed.</p>	<p>Management adjusted for this duplicate asset in 2018/19 before the draft accounts were prepared. We reviewed the adjustment and confirmed it was processed correctly.</p> <p> <a href="#">Recommendation 2</a> (refer appendix 1, action plan)</p>
<p><b>3. Heritage Asset Disclosure</b></p> <p>The Heritage Asset disclosure is not fully compliant with the SORP. Para 18.20 states <i>"when heritage assets are recognised on the balance sheet, a charity must provide an analysis, in the notes to the accounts, of those classes or groups of heritage assets reported at cost and those reported at valuation."</i></p>	<p>Management have agreed to amend the disclosure in 2019/20.</p> <p> <a href="#">Recommendation 3</a> (refer appendix 1, action plan)</p>

Issue	Resolution
NGS has not shown different classes or groups of heritage assets and has not split the total of capitalised heritage assets by value or cost.	

Source: Audit Scotland

## Follow up of prior year recommendations

- 33.** Management has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#). They are identified by the prefix b/f (brought forward).
- 34.** Three agreed actions were raised in 2017/18, of these
- One has been fully implemented
  - One has been partly actioned.
  - One has not been actioned.

# Part 2

## Financial management



### Main judgements

There are appropriate and effective arrangements in place for financial management.

Systems of internal control operated appropriately and effectively in 2018/19.

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

### Financial performance in 2018/19

35. The main financial objective for NGS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.
36. NGS has reported an outturn of £18.745million which is within its overall budget for 2018/19. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#). Other income of £11.767m consisted of donations, income from charitable activities and income from other trading activities.

### Exhibit 4

#### Performance against DEL in 2018/19

Performance	Final budget £m	Outturn £m
Resource DEL	13.545	13.545
Capital DEL (including purchase grant)	5.2	5.2
<b>Total DEL</b>	<b>18.745</b>	<b>18.745</b>

Source: SG Grant in Aid Letter

### 2018/19 financial position

37. The Balance Sheet summarises what is owned and owed by NGS. The financial statements show that NGS has net assets of £342.675 million an increase of £8.775 million largely attributable to increase in tangible and heritage assets.

## Budgetary processes

38. From our review of budget monitoring reports, review of committee papers and attendance at the Audit and Risk Committee we confirmed that senior management and trustees receive regular, timely and up to date financial information on the financial position.
39. We concluded that NGS has effective budgetary processes that allow trustees and officers to carry out effective scrutiny of its finances.

## Systems of internal control

40. 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.
41. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect Management's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

## Internal audit

42. Internal audit is provided by Henderson and Loggie and 2018/19 was the first year of their appointment.
43. We reviewed the internal audit arrangements and concluded that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).
44. 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. However, we did consider their findings as part of our wider dimension work. In particular, we reviewed internal audit's reports on Procurement & Creditors/Purchasing.

## Standards of conduct for prevention and detection of fraud and error

45. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.
46. We 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. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.
47. NSG continue to deliver its biennial anti-fraud and anti-bribery training to all budget holders and staff involved in procurement which demonstrates good practice. As noted in our 2017/18 annual audit report, the Whistleblowing Policy has not been updated since 2011. Due to key staff being on sick leave this was not progressed in 2018/19. Management advised that this will be addressed in 2019/20.
48. We have concluded that NGS has appropriate arrangements in place for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

## National Fraud Initiative

49. 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.
50. NGS provided an update of NFI activity to the Audit and Risk Committee meeting in May 2019. In the 2018/19 exercise, 377 matches were identified, and these are currently being progressed.
51. The Fraud Policy is due to be reviewed in 2019/20. We recommend that management embed the NFI exercise within the Fraud Policy and use it as a source of assurance in its anti-fraud measures.



**Refer to Appendix 1, Recommendation 4**

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## Dependency on key suppliers

52. The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.
53. NGS are involved in a significant capital project for the Scottish National Gallery (SNG) and have contracted Interserve to carry out this work. Interserve is a support service and construction company that many public bodies across the UK have contracted for projects. In early 2019 Interserve faced significant financial issues and subsequently went through a pre-packed administration.
54. We assessed that NGS has appropriate arrangements in place. There is a Parental Guarantee and Performance Bond in place which act as an insurance policy and protects NGS to an extent. As Interserve has undergone financial restructuring, NGS are currently finalising a new Parental Guarantee with the new parent company. We will continue to monitor this in 2019/20.
55. From our review of committee papers and minutes NGS has been assessing the risk periodically and are continuously monitoring the position. Governance and oversight of progress over capital projects is obtained through the Major Capital Programme Committee.
56. Management intend to carry out work in 2019/20 to identify key suppliers for day-to-day operations.

# Part 3

## Financial sustainability



### Main judgements

**NGS has appropriate and effective financial planning arrangements in place with the use of a high-level five-year financial plan which demonstrates good practice**

**We conclude that although NGS face financial pressures over the medium to long term, there are no significant concerns regarding the overall financial position.**

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.

### Financial planning

57. NGS presented its 2019/20 budget to the February 2019 Audit and Risk Committee. This was approved by the Board at the March 2019 meeting.
58. The 2019/20 draft budget presented grant-in-aid (GIA) of £14.770 million which is £1.223 million (9%) more than the initial 2018/19 budget allocation. This resource allocation increase is largely due to the pay award and the one-off pension increase in 2019/20.
59. There is a further £4.6m of non-GIA revenue income, including self-generated income, grant income, exhibition income and trading company income. The 2019/20 budget shows a challenging position reflecting the impact of financial pressures.
60. Capital GIA has increased by £0.5m to £5.7m. In addition £11.5m of external funding is budgeted for the SNG capital project which is expected to incur significant costs in 2019/20.

### Changing landscape for public financial management and medium to long term financial planning

61. Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity
62. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

63. We reviewed the financial planning arrangements of NGS and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.
64. Management has developed a high-level five-year financial plan from 2019/20 to 2023/24. The use of a five-year financial plan is deemed good practice. NGS are forecasting a small surplus each year for the next five years. The saving forecasts include a 10% reduction in expenditure to compensate for the reduction in income and additional costs over the period of the SNG project.
65. The biggest impact over the next few years is the Scottish National Gallery capital project. Work on the project started in September 2018. In 2019/20 capital expenditure is expected to be £14.8m. NGS has experienced loss of income (delays in opening of café, restaurant and shop) due to the delays in the SNG project. Management are forecasting further income reductions in 2019/20.
66. The project is due to be completed in Spring 2021 with some parts opening in Summer 2019.

## EU Withdrawal

67. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. 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 potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
  - Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
  - Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.
68. Ongoing discussions on the potential impact the EU withdrawal will have on NGS is discussed at the Board and Leadership Team level and there is regular communication with staff regarding additional guidance as it becomes available. The biggest impact for NGS is to its workforce as NGS employ a number of front-line staff from other EU countries. Potential impact may also be felt in attracting key specialist staff. This is reflected in the risk register.
69. NGS are preparing for the potential impact of EU withdrawal. Management should continue to assess and prepare for the impact on their business operations.

## Good practice

70. The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. We consider NGS's use of a high-level five-year financial plan demonstrates good practice.



# Part 4

## Governance and transparency



### Main judgements

**There are satisfactory governance arrangements in place that support scrutiny of decisions made by the board. Management should continue to address the ICT issues as part of its preparations for Cyber Essentials.**

**NGS is generally open and transparent in the way it conducts its business. There is scope for improvement in publication of board and committee minutes and papers.**

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.

### Governance arrangements

71. The National Galleries of Scotland Act 1906, as amended by the National Heritage (Scotland) Act 1985, is the enabling legislation for NGS.
72. The Accountable officer is Sir John Leighton, Director-General. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Leadership team. During 2018/19, a new Chief Operating Officer was appointed.
73. NGS had 10 trustees on its board during 2018/19. The board has five sub-committees, including the Audit and Risk Committee. Two new trustees were appointed in 2018/19.
74. From attendance at Audit and Risk Committee meetings, 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 conclude that trustees provide a good level of challenge to management, which demonstrates effective scrutiny.
75. As noted in our 2017/18 Annual Audit Report, no training is offered to trustees after the initial on-board training as part of their induction. This has not been progressed in 2018/19 due to key staff being on sick leave. We recommend that NGS should consider offering further training to its trustees to ensure they are kept up to date on current issues so that they can scrutinise papers effectively.



**Refer to Appendix 1, Recommendation b/f 7**

76. We conclude that arrangements are largely appropriate and adequately support good governance and accountability.

## Openness and Transparency

- 77.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. 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.
- 78.** In our 2017/18 Annual Audit Report we reported that 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. Management agreed to review this and consider whether there is scope to enhance transparency however this could not be progressed due to sickness absence of key staff.



Refer to Appendix 1, Recommendation b/f 9

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## Risk Management

- 79.** In 2017/18 Internal Audit undertook a detailed review of risk management processes and procedures, they concluded that there was reasonable assurance over the risk management arrangements and identified a number of areas of improvement.
- 80.** We noted that little progress was made in 2018/19. Management should continue to develop its risk management procedures.



Refer to Appendix 1, Recommendation b/f 2

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## Transparent reporting of financial and performance information

- 81.** NGS has effective arrangements in place for reporting financial and performance information against targets. The quality and timeliness of financial and performance reporting is appropriate and of sufficient detail to allow effective scrutiny.

## Cyber security

- 82.** 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.
- 83.** In 2017/18, we reported NGS was working towards Cyber Essentials accreditation and were addressing actions raised by internal audit in 2016/17. During 2018/19 the following areas have been progressed:
- Key legacy systems and applications have now been replaced
  - IT Policies have been reviewed and updated in line with industry standards
  - Cyber training was provided to staff. NGS procured computer-based training package which has been rolled out to all staff.

84. There are areas that are being progressed in 2019/20 such as a full disaster recovery test. This will allow NGS to work towards Cyber Essentials accreditation. NGS are aiming to achieve Cyber Essentials Plus accreditation in October 2019.



Refer to Appendix 1, b/f 3

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## General Data Protection Regulation

85. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 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. Failure to comply with new GDPR data handling arrangements could result in NGS incurring significant fines.
86. NGS has a Data Protection Officer who is responsible for overseeing GDPR. Throughout 2018/19, discussions were held with departments to discuss GDPR changes. A number of policies have been updated for GDPR.
87. In 2018/19, three breaches of GDPR were identified of which one was a personal data related incident. These were reported to the Information Commissioner's Office and NGS were advised to review its procedures.

# Part 5

## Value for money



### Main judgements

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

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

### Best value

88. [Ministerial guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) sets out the accountable officer's duty to ensure that arrangements are in place to secure best value .
89. In 2018/19 we assessed the arrangements in place for one of the best value characteristics, Fairness and Equalities.
90. NGS's commitment to Equal Opportunity is shown in the service delivery model. Two of the key strategic drivers in the 2018-22 Strategic Plan is 'our people Achieving the Full Potential of our Team' and 'Visitor Experience: Meeting the needs of our Visitors'. This focuses on NGS's intent to be more responsive and alert to the needs of diverse audiences.
91. NGS's equality outcomes for the period 2017-21, agreed by Management and Trustees, is intended to support organisations in delivering the General Equality Duty of the Equality Act 2010 by focusing the work to achieve real change for the people who visit the galleries and those employed by NGS. An Equalities Working Group has been set up to look at priorities for improving access. The Equalities Working Group regularly liaises with specialist groups which aids programming and develops thinking in relation to access needs.
92. The Learning and Engagement teams work closely with different groups who are consulted with on the development of targeted programmes. There is a Communities Liaison Officer appointed who engages with the local community in relation to different projects.
93. We conclude that NGS has sufficient policies and procedures in place to ensure that the estate, exhibitions and staff are considered for fairness and equal opportunities.

### Performance management

94. The performance of NGS is monitored by the board of trustees and the Audit and Risk Committee 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 NGS's 2018-2022 Strategic Plan.

95. The board is kept well informed of performance across all areas of activity. Responsibility for detailed review and scrutiny of performance lies with the Audit and Risk Committee. We attend Audit and Risk Committee and review papers to gain an insight into how well performance is scrutinised.
96. At each meeting of the Audit and Risk Committee, management present a financial and non-financial performance report. Performance is reported using a traffic light system covering NGS's key indicators. Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.
97. We concluded that NGS has an effective 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**

98. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of interest to the NGS. These are outlined in [Appendix 4](#).

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Donated Heritage Asset Acquisition</b></p> <p>A donated asset was capitalised at the wrong amount. The asset should have been recognised at £2.500m however NGS capitalised this at £3.067m.</p> <p>The effect of this was Heritage Assets and Income from Donations were overstated by £0.567m.</p> <p>Management adjusted the Accounts to recognise the donated asset at the correct value. We reviewed the adjustment and confirmed that this has been processed correctly.</p>	<p>Management should review the process of adding assets to the Heritage assets to ensure these are added at the correct value.</p> <p><a href="#">Exhibit 3, Issue 1</a></p>	<p>The Finance team will work with Collection Care and Curatorial to ensure that valid valuations are used for updating the Heritage Asset register.</p> <p>Evidence of the valuation must be retained for audit purposes.</p> <p><b>Responsible officer:</b> Director of Finance.</p> <p><b>Agreed date:</b> January 2020</p>
2	<p><b>Heritage Asset Register</b></p> <p>During 2018/19, our early testing identified an asset that had been accounted for twice in two different financial years.</p> <p>This asset was recorded with two different asset numbers and this resulted in Heritage Assets being overstated by £0.750m.</p> <p>There is a risk that heritage assets are over stated.</p>	<p>Management should review the heritage asset register to ensure there are no duplicate assets recorded.</p> <p><a href="#">Exhibit 3, Issue 2</a></p>	<p>The acquisitions process was updated post the financial years in question which will ensure that the risk of this happening going forward is mitigated. Finance will work with Collections Care to ensure that there are no further duplicate assets.</p> <p><b>Responsible officer:</b> Director of Finance.</p> <p><b>Agreed date:</b> January 2020</p>
3	<p><b>Heritage Asset disclosure</b></p> <p>The Heritage Asset disclosure is not fully compliant with the SORP requirements.</p> <p>SORP para 18.20 states <i>"when heritage assets are recognised on the balance sheet, a charity must provide an analysis, in the notes to the</i></p>	<p>Management should split the heritage asset note in line with SORP requirements to show different classes of assets and to show whether these are held at cost or valuation.</p> <p><a href="#">Exhibit 3, Issue 3</a></p>	<p>This information is not readily available in NGS's systems however the Finance team will work to provide more information for the financial year-end 2019/20.</p> <p><b>Responsible officer:</b> Director of Finance.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p><i>accounts, of those classes or groups of heritage assets reported at cost and those reported at valuation."</i></p> <p>NGS has not shown different classes or groups of heritage assets and has not split the total of capitalised heritage assets by value or cost.</p>		<p><b>Agreed date:</b> January 2020</p>
4	<p><b>NFI</b></p> <p>NGS are committed to the NFI exercise. However, the Fraud Policy does not make reference to this.</p>	<p>The Fraud Policy is due to be reviewed in 2019/20. We recommend that management embed the NFI exercise within the Fraud Policy and uses it as a source of assurance in its anti-fraud measures.</p> <p><a href="#">Paragraph 49-51.</a></p>	<p>The NGS Fraud Policy will be reviewed in advance of the biennial counter bribery inputs to be delivered by the Director of Operations and the Head of Planning &amp; Performance, in line with the ongoing requirements of the Bribery Act 2010, to all NGS staff authorised to procure goods and services, in October/November 2019.</p> <p>Specific reference to the essentials of the National Fraud Initiative, and to the commitment of NGS to the process, will be included in the revised Policy.</p> <p><b>Responsible officer:</b> Director of Operations/Head of Planning &amp; Performance.</p> <p><b>Agreed date:</b> November 2019</p>

### Follow up of prior year recommendations made in 2017/18

b/f 1	<p><b>Settlement Agreements</b></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 Scottish Government (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><b>Risk</b></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><b>Fully Actioned</b> – Discussions took place with SG to clarify the required procedures for settlement agreements.</p> <p>Management confirmed that they must notify SG of all settlement agreements however they do not require approval as SG do not have an approval function. SG's role under the SPFM is one of scrutiny and advice. Ultimate authority to approve rests with the accountable officer to the body.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	There is a risk that NGS has not complied with the SPFM.		
b/f 2	<b>Risk Management</b> Internal audit identified scope for improvement in risk management arrangements.	NGS should develop its risk management procedures in further detail, including <ul style="list-style-type: none"> <li>• further detail in the risk management guidelines,</li> <li>• risk management training for managers</li> <li>• management to consider how assurance is obtained in relation to the risks identified.</li> <li>• NGS to consider risk appetite.</li> </ul>	<b>Not actioned</b> – No notable progress has been made in 2018/19. A Project Management Office team has been established with one of its aims to focus on risk arrangements within NGS. Internal Audit are doing a follow up review of this in 2019/20.  NGS should continue to develop its risk management procedures.  We will assess progress again early in 2020.  <b>Responsible officer:</b> Leadership Team / Head of Planning and Performance.  <b>Revised date:</b> March 2020
b/f 3	<b>ICT and Business Continuity Review</b> 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.	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	<b>Partly Actioned</b> - Progress has been made to address the issues identified by Internal Audit in 2016/17. However, a number of issues are still in progress and require to be completed.  NGS aims to achieve Cyber Essential Plus accreditation by October 2019. This includes implementation of the Virtual Desktop infrastructure. Over the coming 12 months, plans are in place to move key business systems to the cloud which will improve control.  The above work will support and facilitate the further development of NGS's continuity plan as appropriate.  <b>Responsible officer:</b> Chief Operating Officer / Chief Technology Officer/Director of Operations  <b>Revised Date:</b> June 2020
<b>Follow up of prior year recommendations made in 2016/17</b>			
b/f	<b>Recognition of Liabilities</b>	NGS should comply with the requirements of the SORP and	<b>Fully Actioned</b> – Testing in 2018/19 did not identify any





No.	Issue/risk	Recommendation	Agreed management action/timing
4	<p>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.</p> <p>This is not permitted by the SORP.</p> <p>Further details can be found in our 2016/17 Annual Audit Report, which is available on our website.</p>	<p>ensure that they recognise income in the year in which it is received and expenditure in the year in which it is incurred. Particular reference should be made to SORP chapter 5.</p>	<p>misstatements in the recognition of liabilities.</p>
b/f 5	<p>We identified a number of presentational and disclosure points in our review of the accounts.</p> <p>There is a risk that NGS's accounts do not comply with the Charities' SORP, the FReM or the SPFM.</p>	<p>Management should complete the NAO checklist, which is a useful aide memoire when preparing the trustees' annual report and financial statements.</p>	<p><b>Fully actioned</b> – NGS completed the NAO checklist in 2018/19.</p>
b/f 6	<p><b>Medium to Long-term budgeting and financial planning</b></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>In 2017/18, NGS developed a four-year financial plan from 2018/19-2021/22.</p> <p>Management is seeking to develop more detailed five-year financial plans.</p>	<p><b>Full actioned</b> – NGS have developed a high-level five-year financial plan which is deemed good practice.</p>
b/f 7	<p><b>Training for Trustees</b></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><b>Not Actioned</b> – Two new trustees joined the Board in 2018/19 and on-board training was provided as part of the induction process. However, training had not been provided to existing trustees. We will review this again early in 2020.</p> <p><b>Responsible Officer:</b> Head of Planning and Performance</p> <p><b>Revised Date:</b> March 2020</p>
b/f 8	<p><b>Review of Policies and Procedures</b></p> <p>During our audit, we identified that two of NGS's policies and</p>	<p>NGS should review its policies and procedures regularly, ideally annually, to ensure they are fit for purpose.</p>	<p><b>Partly Actioned</b> – NGS has been reviewing its procedures for updates required for GDPR. However, there are a number of policies that still need to be reviewed.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>We will revisit this during our 2019/20 audit.</p> <p><b>Responsible Officer:</b> Head of Planning and Performance</p> <p><b>Target date:</b> October 2019</p>
<p><b>b/f</b> <b>9</b></p>	<p><b>Transparency</b></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><b>Not Actioned</b> – NGS has not made progress on the publication of board/committee papers and minutes due to key staff being on sick leave.</p> <p>We will review this again in 2019/20.</p> <p><b>Responsible Officer:</b> Head of Planning and Performance</p> <p><b>Revised date:</b> December 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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of Management override of controls</b></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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <ul style="list-style-type: none"> <li>• Review of accounting estimates and accounting policies.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Substantive cut-off testing of income and expenditure to ensure that these have been recognised in the correct financial year.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>We tested a sample of journals. No issues were identified.</p> <p>We reviewed management's estimates. No issues identified.</p> <p>We tested a sample of payables and receivables. No issues were identified.</p> <p>We carried out income and expenditure cut-off testing. No issues identified.</p> <p>No issues of management override identified.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NGS receives a significant amount of income and donations from various sources, in addition to Scottish Government (SG) funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<p>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</p> <ul style="list-style-type: none"> <li>• Substantive cut-off testing of income to ensure that it has been recognised in the correct financial year.</li> <li>• Audit work on the National Fraud Initiative data matches.</li> </ul>	<p>We 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 NFI arrangements.</p> <p>No instances of fraud were identified.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, liabilities (provisions,</p>	<ul style="list-style-type: none"> <li>• Focused substantive testing during the financial statements audit of key areas.</li> </ul>	<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>deferred income and accruals) and donated heritage asset additions. This includes the planned capital additions comprising the extension at the Scottish National Gallery and the National Collection Facility.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Substantive testing of liabilities and cut-off testing of income and expenditure</li> <li>• Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</li> <li>• Assessment of indexation factors applied to fixed assets to ensure these are from a reliable source.</li> </ul>	<p>asset, which management agreed to adjust (Exhibit 3, issue 1).</p>

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

<p><b>4 Financial sustainability</b></p> <p>NGS, similar to other public sector bodies, face challenges and uncertainty over future funding allocations. The main financial target for NGS is to maintain a stable and sustainable financial environment and adequate financial outturn for the year, compared to the budget allocated by Scottish Ministers.</p> <p>Although NGS are forecasting a small excess of income over expenditure in 2018/19, the organisation 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>Discussions with senior finance staff regarding budget plans and finance reports.</p> <ul style="list-style-type: none"> <li>• Focused cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</li> </ul>	<p>We reviewed NGS's budget and noted that there is a high-level five-year financial plan in place.</p> <p>Refer to paras 58-66</p>
<p><b>5 Cyber Security</b></p> <p>The Scottish Government issues a Public Sector Action Plan ('Cyber Essentials') which requires all public sector bodies to vary out work in relation to their cyber security arrangements.</p> <p>NGS did not meet the SG target to achieve Cyber Essentials accreditation by October 2018.</p>	<ul style="list-style-type: none"> <li>• Monitor ongoing work within the IT department to ensure the Public Sector Action Plan is being followed and implemented.</li> </ul>	<p>We reviewed NGS progress against Internal Audit's follow-up review of ICT.</p> <p>Progress has been made to address the issues identified by Internal Audit in 2016/17. However, a number of issues are still in progress and require to be completed.</p> <p>NGS aim to achieve Cyber Essential Pus accreditation October 2019.</p> <p>Refer to paras 82-84</p>

# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Central Government relevant reports

[Scottish Fire and Rescue Service: an update](#) – May 2018

[Scotland's colleges 2018](#) – June 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

# National Galleries of Scotland

## 2018/19 Annual Audit Report

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