

# National Museums Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for National Museums Scotland and the Auditor General for Scotland

19 September 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 National Museums Scotland's (NMS) accounts give a true and fair view of the state of affairs as at 31 March 2019 and of its net expenditure.
- 2 Income and expenditure were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
- 3 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

- 4 NMS operated within its 2018/19 grant in aid budget.
- 5 Systems of internal control were largely effective in 2018/9, with room for improvement in how changes to bank details are processed.

## Financial sustainability

- 6 NMS approved its 2019/20 budget on an interim basis due to the uncertainty of funding for additional employer pension contributions. The Scottish Government has provided additional grant in aid and the Board is expected to approve the 2019/20 budget in September 2019.
- 7 NMS has satisfactory financial planning arrangements.

## Governance and transparency

- 8 There are appropriate and effective governance arrangements in place that support the scrutiny of decisions.
- 9 NMS is generally open and transparent in the way it conducts its business. There is scope for improvement in publication of board and committee reports.
- 10 NMS achieved Cyber Essentials Plus accreditation during 2018/19.

## Value for money

- 11 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
- 12 NMS has appropriate policies and procedures to ensure equality and fairness in its operations.

# Introduction

1. This report summarises the findings from our 2018/19 audit of National Museums Scotland (NMS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 11 March 2019 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from:
  - an audit of the 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 2018/19 have been:
  - a review of NMS's main financial systems
  - an audit of NMS's 2018/19 annual report and accounts including the issue of an independent auditor's report setting out my opinions
  - consideration of the four audit dimensions of public audit.

### Adding value through the audit

4. We add value to NMS 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 3](#)) 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. We aim to help NMS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. NMS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers. The NMS annual report and accounts includes the following:
- Trustees' Annual Report
  - Statement of the Accountable Officer's Responsibilities
  - Governance Statement
  - Financial statements and supporting notes.
7. NMS 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 annual report and 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](#) and supplementary guidance.
11. 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.
12. 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 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 £23,640 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 NMS 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 NMS give a true and fair view of the state of affairs of the NMS and its group as at 31 March 2019 and of the net 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 and governance statement was consistent with the financial statements and properly 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 18 September 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 25 June 2019. A revised version of the trustees' annual report was provided on 11 July 2019.

**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.



## Whole of Government Accounts

20. 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

21. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks 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.

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

### Materiality

23. Misstatements are material if they could reasonably be expected to influence the economic decisions taken by users of the accounts, 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.

24. 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 the 2017/18 audited accounts. With regard to the accounts, we assess the materiality of uncorrected misstatements both individually and collectively, when determining their impact on the accounts.

25. On receipt of the unaudited 2018/19 annual report and accounts we reviewed our materiality bases and concluded that they remained appropriate, as shown in [Exhibit 2](#) below.

## Exhibit 2 Materiality values

Materiality level	Amount
<p><b>Overall materiality:</b> This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of total assets as at 31 March 2019. We have used total assets as the basis for calculating materiality, as a primary function of NMS is to operate as a custodian of public assets. This treatment is in line with ISA 320 and Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom.</p>	£1.875 million
<p><b>Performance materiality:</b> This acts as a trigger point. If the aggregate of errors 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 60% of planning materiality.</p>	£1.125 million
<p><b>Reporting threshold (i.e. clearly trivial):</b> 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 planning materiality (rounded to nearest £10,000).</p>	£40 thousand

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

**26.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We can confirm that there were no significant matters in our 2018/19 financial statements audit to bring to your attention.

## Other findings

**27.** We have no significant findings to report around the qualitative aspects which include the accounting policies, accounting estimates.

**28.** Our audit identified some 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 accounts.

## Follow up of prior year recommendations

**29.** Management has made good progress in implementing our prior year audit recommendations. Three agreed actions were raised in 2017/18, of which two have been fully addressed. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1. These are identified by the prefix b/f \(brought forward\).](#)

# Part 2

## Financial management



### Main judgements

NMS operated within its grant in aid budget for 2018/19

Systems of internal control were largely effective in 2018/19, with room for improvements in some areas

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

30. 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.
31. NMS has reported an outturn of £22.360 million remaining within its overall budget for 2018/19 with an underspend of £37,000. The small underspend is due to the deferral of £37,000 of ring-fenced funding for Maths week, which has been deferred into 2019/20 with the agreement of the Scottish Government.
32. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

### Exhibit 4

#### Performance against DEL in 2018/19

Performance	Initial budget £m	Final budget £m	Outturn £m	Over (under) spend £m
Resource DEL	20.917	21.072	21.035	(0.037)
Capital DEL (including purchase grant)	1.325	1.325	1.325	nil
<b>Total DEL</b>	<b>22.242</b>	<b>22.397</b>	<b>22.360</b>	<b>(0.037)</b>

Source: NMS 2018/19 accounts; NMS 2018/19 grant in aid letter.

## 2018/19 financial position

- 33.** The Consolidated Balance Sheet summarises what is owned and owed by NMS. 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.
- 34.** The financial statements show that NMS has net assets of £183.823m (17/18 £196.431m), which have reduced by £12.608m since 2017/18. This is mainly due to a £13.1m reduction in the value of tangible assets following the 5-year revaluation at 31/3/19 and the disposal of the dental hospital.

## Budgetary processes

- 35.** From our review of budget monitoring reports to Board, Finance 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 NMS's financial position.
- 36.** We concluded that NMS has effective budgetary processes that allow trustees and officers to carry out effective scrutiny of its finances.

## Systems of internal control

- 37.** 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 NMS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 38.** We concluded that the controls tested were operating effectively, except for controls over payroll and supplier bank details. We identified that finance staff with 'write' permissions in the payroll and creditors systems can amend bank details of staff and suppliers. These staff are responsible for reviewing audit logs of changes to bank details. We substantively checked a sample of changes and confirmed that these have been processed accurately. However, there is a risk that changes to supplier and staff bank accounts are made fraudulently or in error.

**Refer to Appendix 1, Recommendation 1**

## Internal audit

- 39.** The 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). No issues were identified in 2018/19. 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.

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

- 40.** 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.

41. We reviewed the arrangements in place to maintain standards of conduct including the Staff Code of Conduct and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.
42. Staff policies and procedures should be reviewed and updated regularly (ideally on an annual basis). We noted, however, that the following policies have not been reviewed for some time:
- Rewards and Hospitality policy (last reviewed Oct 2011)
  - Attendance policy (last reviewed July 2014)

**Refer to Appendix 1, Recommendation 2**

43. We have concluded that NMS 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

44. 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.
45. NFI activity is summarised in [Exhibit 5](#). There were 268 matches, of which 5 were deemed high risk. All matches were investigated and resolved in a timely manner by the Finance Manager. No frauds or errors were identified.

### Exhibit 5 NFI activity



260

**Matches**



5

**Recommended for  
investigation**



268

**Completed/closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

46. We concluded that NMS has been proactive in completing investigation work, with all matches reviewed by the end of June 2019. We consider that the review of all matches by management demonstrates good practice and commitment to the NFI exercise. We did find, however, that the NMS Fraud Policy does not refer to NFI. We recommend that reference to NFI is included in the Fraud Policy as it is a key control to minimise the risk of fraud.

**Refer to Appendix 1, Recommendation 3**

### Dependency on key suppliers

47. 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.

- 48.** We have considered this risk during our 2018/19 audit work but have not identified any key supplier dependencies for NMS that we should report to you. Management should continue to consider the risk of key supplier failure in future years.

# Part 3

## Financial sustainability



### Main judgements

**NMS Approved its 2019/20 budget on an interim basis due to the uncertainty of funding for additional employer pension contributions. The Scottish Government has provided additional grant in aid and the Board is expected to approve the 2019/20 budget in September 2019.**

**NMS has satisfactory financial planning arrangements.**

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

49. In March 2019, the Board considered the draft 2019/20 budget. This showed a forecast £381,000 overspend, due to increases in employer pension contributions and the assumption that these would only be part funded by the Scottish Government . The proposed budget included scenario planning based on different levels of Scottish Government funding for the additional pension costs. The Board approved this budget on an interim basis to enable day-to-day operations to continue.
50. In July 2019, the Scottish Government confirmed that the full cost of the increase in the employer pension contribution would be funded by grant in aid. As such, the Board was able to approve a balanced budget in September 2019.

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

51. 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
52. 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, high-level five-year Medium-Term Financial Strategy (MTFS) in May 2019. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.
53. We reviewed the financial planning systems of NMS and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

- 54.** As noted previously we recognise that NMS is mainly funded from SG budget allocation through Grant in Aid and this is determined on an annual basis by the SG. This should not preclude NMS from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.
- 55.** NMS has developed a high-level three-year financial plan from 2019/20 to 2021/22. Management has considered that financial planning beyond three years does not provide any significant benefit in managing the organisations finances.
- 56.** During 2018/19, 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. We consider that management is making good progress in this area.

## EU Withdrawal

**57.** 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.

**58.** NMS has taken the following action to address the risks posed by EU Withdrawal:

- A staff intranet page explaining the EU settlement scheme to staff.
- NMS is developing a workforce plan which will consider the wider risks within the Culture sector of EU withdrawal.
- NMS liaised with its suppliers about the likely impact of EU Withdrawal.

**59.** Management have made progress to prepare for the EU withdrawal at the 31 March 2019. Despite significant uncertainties as to the Brexit outcome, the NMS have committed an appropriate level of time and resources to consider risks for NMS and arrived at the conclusion that Brexit-related risks are manageable.

**60.** Since then the UK received an extension until 31 October 2019 and NMS continues to consider any developments and new risks in this area.



# Part 4

## Governance and transparency



### Main judgements

**NMS has effective governance arrangements in place that support the scrutiny of decisions by trustees**

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

**NMS has achieved Cyber Essentials Plus accreditation during 2018/19.**

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

- 61.** 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.
- 62.** There are thirteen trustees plus an appointed Chair on NMS's Board. All Board members are appointed by the Scottish Ministers.
- 63.** 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 Ministers. 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

- 64.** This committee structure is unchanged from last year. The ARC and the Personnel & Remuneration Committee have delegated responsibility for certain matters under the Scheme of Delegation.
- 65.** 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.
- 66.** From our attendance at ARC meetings, 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.

## Openness and transparency

- 67.** 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.
- 68.** 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.
- 69.** 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 3**

## Risk management

- 70.** We have reviewed risk management arrangements in place, including a review of the Risk Management Policy.
- 71.** 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.
- 72.** 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.
- 73.** The ARC 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. The Register is reported to each meeting of the ARC for review, amendment and approval to ensure that it reflects the body's understanding of the current risks that it operates amongst. The register is formally reviewed by the Committee at every meeting and by the Executive team every 6 months, with any changes being proposed to the following meeting of the A&R Committee.
- 74.** 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.

## Governance Statement

- 75.** Under the Treasury's Financial Reporting Manual (FRoM), NMS 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.
- 76.** The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. NMS's assurance process included senior management 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.
- 77.** We concluded that the 2018/19 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.

## Cyber security

- 78.** 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. In our 2017/18 Annual Audit Report, we reported that NMS had achieved Cyber Essentials accreditation.
- 79.** We are pleased to report that NMS received Cyber Essentials Plus accreditation in October 2018.

## General Data Protection Regulation

- 80.** 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 NMS incurring significant fines.
- 81.** Internal Audit reviewed NMS's compliance with GDPR in 2018/19. The report highlighted a number of areas of good practice. However, it highlighted three medium risk and three low risk findings, which management has agreed to address.

# Part 5

## Value for money



### Main judgements

**NMS 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**

**NMS has appropriate policies and procedures to ensure equality and fairness in its operations.**

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

### Best value – Equality

82. [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.
83. 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 NMS, agree to undertake local work in this area.
84. In 2018/19, we assessed the arrangements in place for one of the characteristics of best value: equalities. NMS's Strategic Plan 'Shaping the Future' sets out the organisation's social impact. This includes increasing attendance from disadvantaged communities, increasing the participation from schools and engaging people to learn, particularly younger people.
85. NMS has in place a People and Organisational Strategy, 'Inspiring People', has four themes, one of which is Performance and Recognition. Under this theme is the objective 'Promote equality, diversity and inclusion, to create a positive culture that values the contribution from all'.
86. We concluded that NMS has sufficient policies and procedures in place to ensure that the estate, exhibitions and staff are considered to comply with the best value theme of equality.

### Performance management

87. NMS's performance 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 NMS's 2016-20 Strategic Plan.
88. NMS 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.

- 89.** 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.
- 90.** Performance as at June 2019 found the majority of measures had been met or exceeded their target. However, the targets for on-site physical visits, digital visits and visitor satisfaction hadn't met target.
- 91.** We concluded that NMS 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**

- 92.** 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 NMS. These are outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Changes to Bank Details</b></p> <p>Finance staff with 'write' permissions in the payroll and creditors systems can amend bank details of staff and suppliers. These staff are responsible for reviewing audit logs of changes to bank details. We checked a sample of changes and confirmed that these have been processed accurately.</p> <p><b>Risk:</b> There is a risk that changes to supplier and staff bank accounts are made inappropriately.</p>	<p>There should be segregation of duties to prevent finance staff who review audit logs from being able to make changes to supplier and staff bank accounts.</p>	<p>The Audit file will be reviewed independently in the future.</p> <p>Responsible person: Director of Finance &amp; Planning</p> <p>Agreed date. August 19</p>
2	<p><b>Staff Policies</b></p> <p>Our review of NMS's staff policies and procedures identified that:</p> <ul style="list-style-type: none"> <li>• Rewards and Hospitality policy last reviewed Oct 2011</li> <li>• Attendance policy last reviewed July 2014</li> </ul>	<p>Staff policies and procedures should be reviewed and updated regularly (ideally annually).</p>	<p>Rewards and Hospitality and Attendance only. These policies are already being updated as part of a review of all HR Policies</p> <p>Responsible person: Director of Finance &amp; Planning</p> <p>Agreed date. December 19.</p>
3	<p><b>NFI – Fraud Policy</b></p> <p>The Fraud Policy does not refer to the NFI exercise. NFI is a useful tool to minimise the risk of fraud.</p>	<p>Management should consider updating the Fraud Policy to refer to the NFI exercise and all other relevant anti-fraud measures.</p>	<p>This will be considered at the next review in October 2020</p> <p>Responsible officer: Director of Finance &amp; Planning</p> <p>Agreed date: October 2020</p>

### Follow up of prior year recommendations

b/f 1	<p><b>Disposal of Equipment</b></p> <p>We identified that there is potential for research and conservation equipment such as digital cameras and</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</p>	<p>Fully Actioned – A Fixed Assets Disposal Procedure was approved in May 2019.</p>
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No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>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>achieves Best Value, keeps finance informed and reduces the risk of fraud.</p>	
<b>b/f 2</b>	<p><b>Review of Policies</b></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>Fully Actioned – the Code of Conduct was updated during 2019.</p>
<b>b/f 3</b>	<p><b>Transparency</b></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 committee papers and committee minutes.</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 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.</p> <p>We will continue to monitor this throughout our appointment.</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>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>We tested a sample of journal entries and agreed to source documentation. There were no issues to report.</p> <p>We reviewed accounting policies in the financial statements. We have deemed these to be appropriate for NMS.</p> <p>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.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NMS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud 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>Effective budget monitoring by management.</p> <p>Internal audit coverage.</p> <p>Fraud Policy, Bribery and Corruption Policy and Whistleblowing Policy in place.</p> <p>Participation in the National Fraud Initiative.</p>	<p>Testing of income and expenditure did not identify any issues.</p> <p>Reviewed anti-fraud policies and found they were sufficient.</p> <p>All NFI matches reviewed in a timely manner.</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 fixed assets and accruals. This subjectivity represents an increased risk of</p>	<p>Effective budget monitoring by management.</p> <p>Regular reporting to the Board, ARC and Corporate Management Team.</p> <p>RICS approved indexation factors for the valuation of NMS's land and buildings are</p>	<p>Testing of land and buildings revaluation and accruals identified no issues.</p>



Audit Risk	Assurance procedure	Results and conclusions
misstatement in the financial statements.	applied in the years where a full revaluation is not undertaken.	

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

#### 4 Financial sustainability

NMS, like other public sector bodies, face challenges and uncertainty over future funding allocations. The main financial target for NMS is to maintain a stable and sustainable financial environment and adequate financial outturn for the year, compared to the budget allocated by Scottish Ministers. NMS are projecting to break-even for financial year 2018/19.

Although NMS are on course to meet its financial target 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.

Effective budget monitoring by the finance team.

Regular financial reporting to the Board, Finance, and Audit and Risk Committees.

Ongoing communication with the Scottish Government sponsor division.

A 3-year financial forecast is produced by the finance team which includes scenario planning.

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.

As noted at para 50 above, NMS did not approve a 19/20 budget until September 2019 due to uncertainty over the funding for increases in employer pension contributions.

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.

# 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 Museums Scotland

## 2018/19 Annual Audit Report

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