

# National Museums Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

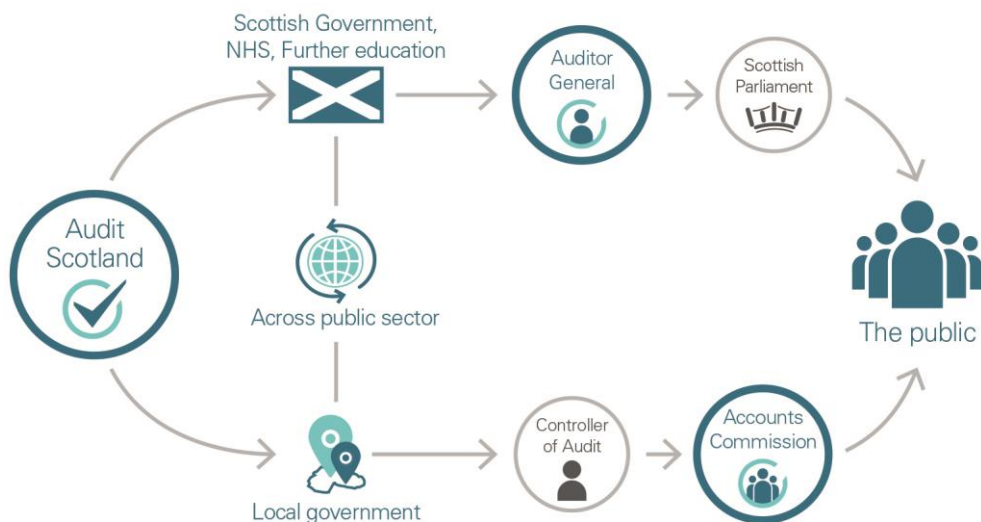
Prepared for National Museums Scotland and the Auditor General for Scotland

November 2020

## 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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## 2019/20 annual report and accounts

- 1** National Museums Scotland's (NMS) annual report and accounts give a true and fair view of the state of affairs of NMS and its group as at 31 March 2020 and were properly prepared in accordance with the financial reporting framework.
- 2** Due to the impact of Covid-19, the original audit timeline had to be changed. The draft annual report and accounts were received by us on 31 August 2020 in line with the revised deadline.

## Financial management

- 3** NMS has appropriate and effective financial management arrangements.
- 4** Systems of internal control operated appropriately and effectively in 2019/20 with scope for improvements in some areas.

## Financial sustainability

- 5** NMS has approved their 2020/21 budget and prepared forecasts up to financial year 2022/23. Management should continue to revise these forecasts to determine the financial impact of Covid-19.
- 6** The financial planning arrangements are satisfactory.

## Governance and transparency

- 7** There are appropriate and effective governance arrangements in place that support the scrutiny of decisions.
- 8** NMS adapted well to the move to home working due to Covid-19 and managed to maintain appropriate governance using online meetings.
- 9** NMS did not achieve Cyber Essentials Plus re-accreditation during 2019/20. Management expect to achieve this during 2020/21.

## 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 2019/20 audit of National Museums Scotland (also referred to as 'NMS' throughout this report).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 16 March 2020 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from our:
  - audit of NMS's trustees' annual report and accounts
  - consideration of the wider audit dimensions of financial management, financial sustainability, governance and transparency, and value for money.
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, NMS has had to respond to the Covid-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements. Aside from the revised audit timetable, we are pleased to note Covid-19 did not have a significant effect on the completion of our financial statements 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
  - 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. In so doing, 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 an annual report and accounts that are in accordance with the accounts direction from the Scottish Ministers.
7. The body 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. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**10.** This report raises matters from our audit. 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.

**11.** Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officer(s) and dates for implementation. It also includes any outstanding actions from last year and progress against these.

### **Auditor Independence**

**12.** 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 2019/20 audit fee of £23,950 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** 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.

**14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

**National Museums Scotland's (NMS) annual report and accounts give a true and fair view of the state of affairs of NMS and its group as at 31 March 2020 and were properly prepared in accordance with the financial reporting framework.**

**Due to the impact of Covid-19, the original audit timeline had to be changed. The draft annual report and accounts were received by us on 31 August 2020 in line with the revised deadline.**

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

### Our audit opinions on the annual report and accounts are unmodified

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

**16.** The annual report and accounts for the year ended 31 March 2020 were approved by the board on 11 November 2020.

**17.** As reported in our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- expenditure and income are regular and in accordance with applicable enactments and guidance;
- the information provided in the Trustees' Report and Governance Statement is consistent with the financial statements and properly prepared in accordance with legislation and guidance.

### Impact of Covid-19 on the accounting framework

**18.** As a charitable body, NMS adheres to the SORP (FRS 102) accounting framework. No amendments to the SORP were required as a result of Covid-19. NMS's financial statements also comply with the Government Financial Reporting Manual (FRM). An addendum to the 2019/20 FRM was published in May 2020 to allow central government bodies to reduce narrative sections of their accounts, however management decided to produce a full report as in previous years.

## Adjustments to the audit timetable

**19.** Due to the Covid-19 pandemic, the audit timeline had to be revised. We received the unaudited trustees' annual report and accounts on 31st August 2020 as part of the revised timetable agreed with management. Additional pressures on the finance team as a result of the pandemic and the physical limitations on access to records and systems contributed to the delay.

**20.** The draft trustees' annual report and accounts provided for audit were complete and of a good standard. All working papers were available electronically and the audit was completed remotely. Finance officers provided support to the audit team which helped ensure the audit process ran smoothly.

## Whole of Government Accounts (WGA)

**21.** In accordance with the WGA guidance we plan to complete and submit the required assurance statement to the National Audit Office (NAO) by the end of November 2020, after the approval and audit certification of the NMS annual report and accounts.

## Overall materiality is £1.9 million

**22.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and the nature of a misstatement in the financial statements.

**23.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

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## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.9 million
Performance materiality	£1.3 million
Reporting threshold	£40,000

Source: NMS Annual Audit Plan 2019/20

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## Risks of material misstatement

**24.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and the wider audit dimension risks that we identified during our audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**25.** We have no issues to report from our work on the risks of material misstatement highlighted in our Annual Audit Plan.

## 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. We have no significant findings to report around the qualitative aspects of the body's accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 2](#). Where a significant finding has resulted in a recommendation to management this has been cross referred to [Appendix 1](#).

## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Purchase Order Approval Process</b></p> <p>We identified a weakness in the system for raising and approval of Purchase Orders (PO). The system allows individuals to raise and self-approve purchase orders up to their authorisation level. During our interim testing, there was no readily available report which could be provided to detail the quantity and the individual values of the POs raised and self-approved.</p> <p>We selected a sample 10 POs from the system and noted 3 out of 10 had been raised and approved by the same individuals.</p>	<p>Management requested from the system administrator that a report be created to show all purchase orders and who raised and approved them.</p> <p>Following on from this report, management provided explanations for POs raised and approved by the same individuals within a period of 3 months and found no areas of concern. A secondary control is the review of budget costs by departmental heads who need to review all outstanding POs. This is a control in place to prevent fraud or error. NMS have now incorporated an additional procedure in this area going forward.</p> <p> <a href="#">Recommendation 1</a> (refer <a href="#">Appendix 1</a>, action plan)</p>

Source: Audit Scotland

## Evaluation of misstatements

**27.** There were no material adjustments to the draft annual report and financial statements arising from our audit.

**28.** There were no misstatements above our reporting thresholds identified from our audit.

## Other findings

**29.** Our audit work identified that NMS did not achieve Cyber Essentials Plus Re-Accreditation in 2019/20. The accreditation achieved during 2018/19 expired in October 2019. See [paragraph 74](#).

## Follow up of prior year recommendations

**30.** Management made good progress in implementing our prior year audit recommendations. We have reported progress of prior year actions in [Appendix 1](#).

# Part 2

## Financial management



### Main judgements

**NMS has appropriate and effective financial management arrangements.**

**Systems of internal control operated appropriately and effectively in 2019/20 with scope 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 2019/20

**31.** 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 must self-generate income and manage costs over the long-term to ensure financial sustainability.

**32.** NMS has reported an outturn of £23.329 million remaining within its overall budget for 2019/20. This amount is £37,000 higher than the offer letter and is due to the deferral of £37,000 of ring-fenced funding for Maths week, which had been deferred into 2019/20 from 2018/19 with the agreement of the Scottish Government.

### Exhibit 4

#### Performance against DEL in 2019/20

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	22.342	22.379	0.037
Capital DEL	0.950	0.950	nil
<b>Total DEL</b>	<b>23.274</b>	<b>23.329</b>	<b>0.037</b>

Source: NMS 2019/20 accounts; NMS 2019/20 grant in aid letter.

### 2019/20 Financial Position

**33.** A large element of NMS's resource expenditure consists of staff costs, which amounted to around £16.8 million. Expenditure is split into the various charitable activities of NMS, with Public Displays and Events and Estates and Buildings the most significant areas of spend. NMS's main source of income continues to be

Grant in Aid funding from the Scottish Government which was approximately £23m (75% of overall income) in 2019/20.

**34.** NMS also recognise other income of approximately £5.4m in the Statement of Financial Activities. This consists of donations, income from charitable activities and income from other trading activities.

**35.** Overall, NMS remains in satisfactory financial health in the short term. The balance sheet shows what is owned and owed by NMS as at 31st March 2020. This currently shows net assets of £182.1m, a decrease of £1.7m on the prior year.

### **Budgetary processes are appropriate**

**36.** From our review of budget monitoring reports to the Board, Finance Committee, Audit and Risk Committee and attendance at meetings, we confirmed that senior management and trustees receive regular, timely and up to date financial information.

**37.** We concluded that NMS has sound budgetary processes that allow trustees and officers to carry out effective scrutiny of its finances.

### **Systems of internal control**

**38.** 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.

**39.** During our interim audit work in February 2020 we began our review of key financial systems and assessed controls in the general ledger, payroll and banking.

**40.** We confirmed our understanding of the key controls, carried out walkthroughs of each control and concluded that they are suitably designed to detect and/or prevent risk of material misstatement.

**41.** We concluded that the controls tested were operating effectively, except for controls over purchase order segregation of duties and bank reconciliations. We identified that due to a system specification, staff can raise purchase orders (PO's) which are below their approving threshold. Purchase orders are then sent to the originator for approval. This allows the raising and approval of PO's without a segregation of duty check in place. Management completed an exercise to investigate purchase orders raised and approved by the same individuals. No concerns were raised from this review.

**42.** We also noted that, due to staffing shortages, bank reconciliations were performed by the finance manager with no evidence of review by another person. We checked a sample of reconciliations and confirmed that these have been completed accurately. However, there is a risk that errors may go unnoticed.



### **Recommendation 1**

**NMS should implement a process to investigate all purchase orders raised and approved by the same individual. This should be completed on a frequent basis and have a secondary review. Staff should be reminded not to raise and self-approve purchase orders.**



## Recommendation 2

### Bank reconciliations should be reviewed and evidenced by a second officer.

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#### Internal audit

**43.** The internal audit function for the 2019/20 period was carried out by KPMG. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2019/20 concluded: *Significant (with minor improvement opportunities) assurance can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.*<sup>1</sup>

**44.** We completed a local review of internal audit arrangements for NMS and whilst we note KPMG were not in full compliance with PSIAS, we have concluded these arrangements to be satisfactory on the basis that 2019/20 was the last year of their appointment. Henderson Loggie are the new internal auditors from 2020/21.

**45.** We consider internal audit reports and findings to provide assurance over the wider audit dimensions we comment on in this report. As our audit of the accounts is focused on substantive testing, we have not used the work of internal audit to support our opinion on the financial statements.

#### Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

**46.** NMS is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**47.** We have reviewed NMS's arrangements and concluded that these are appropriate 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.

#### Arrangements for preventing fraud and corruption in the procurement function are appropriate

**48.** Our consideration of financial management includes evaluating the arrangements in place for preventing and detecting fraud and corruption. We carried out an assessment this year of the arrangements in place to prevent fraud and corruption in the procurement function. We requested that management complete a self-evaluation checklist and provide supporting documents for their responses. We reviewed these supporting documents.

**49.** Our findings are summarised as follows:

- There is a dedicated procurement playbook on the intranet available to all staff. This includes step by step guidance on the procurement process. All procurement regulations and National Museums Scotland policies have been incorporated into the guidance that is set out in this playbook.
- Budget holders have management account reviews every month, when performance against budgets is discussed in detail to understand the nature

<sup>1</sup> National Museums Scotland, KPMG Annual Internal Audit Report 2019-20, July 2020

of spends and forecasts for the year. Open purchase orders are reviewed to identify spend commitments.

- NMS do not have a dedicated procurement department; rather departmental heads are responsible for their own procurement needs.
- Gifts and Hospitality Policy is sent out to everyone yearly as a reminder and a log maintained in Human Resources.



### Recommendation 3

**We conclude that arrangements for preventing fraud and corruption in the procurement function are appropriate, but management should consider providing procurement training and raising awareness of best practice to relevant staff.**

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# Part 3

## Financial sustainability



### Main judgements

**NMS has approved their 2020/21 budget and prepared forecasts up to financial year 2022/23. NMS should continue to revise these forecasts to determine the financial impact of Covid-19.**

**Financial planning arrangements are satisfactory.**

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

### The body has a medium-term financial plan, but is yet to develop a longer-term plan

50. NMS presented its 2020/21 budget <sup>2</sup>at the Board meeting in March 2020. The budget sets out the following:

- A draft budget of £27.545 million total expenditure in 2020/21.
- This is matched by £27.555 million of income. £22.872 million Grant in Aid will be received from the Scottish Government. This funding will therefore remain NMS's main source of income (83%).
- There is a further £4.683 million of non-GIA revenue income, including self-generated income, grant income, exhibition income and trading company income. The 2020/21 updated forecast shows a challenging position reflecting the impact of financial pressures.

### Existing financial plan should be revised due to the impact of the Covid-19 pandemic

51. When complete lockdown was implemented following guidance from the Scottish Government, NMS closed all of its museums to the public on 18 March 2020. In response to the Covid-19 pandemic NMS has reassessed the 2020/21 budget. A paper<sup>3</sup> was brought to the June 2020 Board meeting to detail a review the financial impact of the lockdown on National Museums Scotland over the short and medium term. The following was noted

- Income – NMS have estimated loss of income to be around £2.3 million to £3 million due to the extended closure period, cancelled events and assumed reduction in footfall. Loss of income is also driven by a suspension

<sup>2</sup> National Museums Scotland, Budget 2020/21 and Financial Plan, presented at the Board meeting on 4<sup>th</sup> March 2020.

<sup>3</sup> National Museums Scotland, Covid-19: Budget 2020/21 and Financial Plan presented at the Board meeting on 3<sup>rd</sup> June 2020.

of membership income and reduced profits from the wholly owned subsidiary.

- Expenditure – NMS have estimated additional expenditure of £0.150 million for additional Health & Safety measures to implement social distancing and cleaning

**52.** NMS have taken several cost saving measures to mitigate the consequences noted above. These include the following:

- Utilisation of the Coronavirus Job Retention Scheme (CJRS), resulting in cost savings of £0.9 million.
- £0.57 million from cancelling or postponing summer exhibitions.
- £0.6 million from applying for business rates relief.

**53.** The wholly owned subsidiary is also facing similar financial pressures, with NMS providing a loan facility to the trading company of £1 million.

**54.** Management present a financial report at each Board meeting to detail actuals versus budget and provide narrative for factors driving any surplus/deficits. Based on the reforecast, NMS is expecting a small deficit in 2020/21.

**55.** We conclude that satisfactory financial planning arrangements are in place over the short term. However, financial plans will need revised to consider the medium-term impact of Covid-19 for future years.

**56.** NMS have made good progress in estimating the potential impact of Covid-19 in the short term and they should continue this work going forward.



#### Recommendation 4

**Budget forecasts should continue to be revised to determine the financial impact of Covid-19 on NMS in the medium term.**

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# Part 4

## Governance and transparency



### Main judgements

**There are appropriate and effective governance arrangements in place that support the scrutiny of decisions.**

**NMS adapted well to the move to home working due to Covid-19 and managed to maintain appropriate governance using online meetings.**

**NMS did not achieve Cyber Essentials Plus re-accreditation during 2019/20. Management expect to achieve this during 2020/21.**

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

**58.** 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 appropriate
- Provide education, instruction and advice and carry out research.

**59.** There are twelve trustees plus a Chair on the Board. All members are appointed by the Scottish Ministers.

**60.** 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 (ARC)
- Personnel and Remuneration Committee
- Finance Committee



- Acquisition Committee
- Nominations and Governance

**61.** 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.

**62.** 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.

**63.** 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.

**64.** From our attendance at ARC meetings, we note that committee papers are well prepared in advance of each meeting, and enough 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.

**65.** As noted in our Annual Audit Plan, a new Director joined NMS in April 2020. We reviewed the processes in place for the Director to gain assurance over the annual report and accounts and found these to be appropriate.

### **The Covid-19 pandemic has affected governance and working arrangements**

**66.** NMS closed all of its museums to the public on the 18<sup>th</sup> March 2020. Since then, NMS has had most staff working from home. Board and committee meetings take place virtually in order to maintain good governance.

**67.** We noted the steps taken to allow staff to prioritise their response to the outbreak and adapt their working practises. Home working was significantly expanded, and online applications were utilised to allow staff to continue to work and communicate. NMS are reviewing policies on remote working as a result of the shift to home working.

**68.** NMS began a phased re-opening of each of the museums in mid-August 2020 in line with Scottish Government's advice and guidelines, Management devised a detailed re-opening plan, including risk assessments, which was presented to the Board on 3 June 2020.

**69.** We conclude that appropriate arrangements were put in place by management to continue to support good governance and accountability.

### **Openness and transparency**

**70.** 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.

**71.** The Board meetings are held in private and a public annual review meeting held. Board and other committee papers are not made publicly available.

**72.** As raised in prior year Annual Audit Reports, National Museums Scotland should consider improving the transparency of its functions to aide scrutiny by members of the public and wider society.

## Cyber security

**73.** 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.

**74.** In 2018/19 we reported NMS had achieved Cyber Essentials Plus accreditation. The re-accreditation has not been achieved in 2019/20. The closure of museums in March 2020 delayed the ongoing IT improvements as the infrastructure-based improvements required direct access to the site, which was not possible. NMS noted the requirements for the Cyber Essentials accreditation are largely based on keeping onsite computers up to date. Management were in the process of upgrading PCs from Windows 7 to Windows 10 and completing other Cyber Essentials work when the museums were closed due to the Covid-19 pandemic. NMS's focus during the return period has been on other aspects such as remote access for home workers.

**75.** Management expect to re-engage with Cyber Essentials accreditation once they have finished establishing secure remote access for home workers and expect to complete it once they have the opportunity to work through all the machines onsite. NMS anticipate this will be in the New Year when users are expected to return to site. We will monitor this throughout our audit appointment.

# Part 5

## Value for money



### Main judgements

**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.**

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

### NMS has satisfactory best value arrangements and good performance reporting in place

**76.** *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. The guidance sets out the key principles of best value and the requirement to have a systematic approach to self-evaluation and continuous improvement.

### Performance Management

**77.** 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.

**78.** 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.

**79.** 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.

**80.** Performance for 2019/20 as reported in the Director's Report to the Trustees<sup>4</sup> to the June Board meeting found the majority of measures had not been met, performance was impacted by Covid-19 and the closure of all four museums from 18 March 2020.

**81.** 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.

<sup>4</sup> National Museums Scotland, Director's Report to the Trustees (26/03/20220-03/06/2020), presented at the Board meeting held on the 3<sup>rd</sup> June 2020.

## National performance audit reports

**82.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2019/20 several reports were published which are of direct interest to the body. These are outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2019/20

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Purchase Orders</b></p> <p>As part of our interim testing, we identified a weakness in the purchase order system. Purchase Orders can be raised and approved by the same individual.</p> <p><b>Risk</b></p> <p>There is a risk that purchase orders are raised and approved in error and not identified by management.</p>	<p>NMS should implement a process to investigate all purchase orders raised and approved by the same individual. This should be completed on a frequent basis and have a secondary review. Staff should be reminded not to raise and self-approve purchase orders.</p> <p><a href="#">Paragraph 41</a></p>	<p>We have been operating a manual Purchase Order process during 2020/21 which prevents this from happening. As we move back to electronic ordering we will run the new Purchase Order report on a regular basis to ensure that team members are not authorising and approving orders.</p> <p><b>Responsible officer</b></p> <p>Finance Manager</p> <p><b>Agreed date</b></p> <p>October 2020</p>
2	<p><b>Segregation of duty – bank reconciliations</b></p> <p>We identified that, due to staff shortages, the finance manager is preparing bank reconciliations which are not reviewed by another officer.</p> <p><b>Risk</b></p> <p>There is a risk that, without oversight, errors may go unnoticed in the process.</p>	<p>Bank reconciliations should be reviewed and evidenced by a second officer.</p> <p><a href="#">Paragraph 42</a></p>	<p>A second officer will review bank reconciliations.</p> <p><b>Responsible officer</b></p> <p>Finance Manager</p> <p><b>Agreed date</b></p> <p>October 2020</p>
3	<p><b>Procurement training for staff</b></p> <p>We concluded that arrangements for preventing fraud and corruption in the procurement function are appropriate, but NMS should consider providing training and raising awareness of best practice to relevant staff.</p> <p><b>Risk</b></p> <p>There is a risk that staff do not follow the most up to date procurement guidance and</p>	<p>Training should be considered for relevant staff to ensure the procurement processes are followed appropriately.</p> <p><a href="#">Paragraph 49</a></p>	<p>Training was to be implemented in Q1 2020/21 but has been delayed due to remote working. Work is ongoing with the NMS Training and Development to identify online training, which is relevant to NMS</p> <p><b>Responsible officer</b></p> <p>Director of Finance and Planning</p> <p><b>Agreed date</b></p> <p>March 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	best practice if regular training is not provided.		
4	<p><b>Budget forecasts require revision</b></p> <p>NMS has financial forecasts for the next three financial years (up to 2022/23). We recommend management continue to revise and update these forecasts to determine the financial impact of the Covid-19 pandemic, as the outlook becomes clearer.</p> <p><b>Risk</b></p> <p>There is a risk that NMS's financial sustainability will be adversely affected by Covid-19 in future years.</p>	<p>Budget forecasts should continue to be revised to determine the financial impact of Covid-19 on NMS in the medium term.</p> <p><a href="#">Paragraph 55</a></p>	<p>Budgets and Forecast are already regularly updated.</p> <p><b>Responsible officer</b></p> <p>Director of Finance and Planning</p> <p><b>Agreed date</b></p> <p>Ongoing</p>

### Follow up of prior year (2018/19) recommendations

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>Risk: 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><b>Fully Actioned</b></p> <p>From discussions with management and evidence reviewed, a new process is in place to provide an independent review of the audit file.</p>
2	<p><b>Staff Policies</b></p>	<p>Staff policies and procedures should be reviewed and updated regularly (ideally annually).</p>	<p><b>Fully Actioned</b></p> <p>All staff policies are currently under review via the HR Policies and Procedures</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<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>Update Project. To date, most policies have all been updated as part of the project including Rewards &amp; Hospitality and the Attendance policy.</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><b>Not Actioned</b></p> <p>This policy is still under review and has not yet been updated.</p> <p><b>Revised Date</b></p> <p><b>March 2021</b></p>
b/f 2016/17	<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><b>Partially actioned</b></p> <p>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. 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 to 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 material misstatement caused by management override of controls</b></p> <p>Although we have not identified any specific risks of management override of controls relating to NMS, auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and accounting policies.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We 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 accruals and prepayments. No issues were identified.</p> <p>No issues of management override identified.</p>
<p><b>2 Risk of material misstatement caused by fraud in income recognition and expenditure recognition</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>Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</p> <p>Review arrangements over National Fraud Initiative data matches</p> <p>Focused testing on prepayments and accruals</p>	<p>No issues were identified from our testing of income and expenditure transactions.</p> <p>NMS have engaged with the NFI process and followed up all matched.</p> <p>No issues identified in relation to fraud over income and expenditure.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement</p>	<p>Focused substantive testing during the financial statements audit of key areas.</p>	<p>No issues were identified from out cut off testing in relation to income and expenditure.</p>



Audit Risk	Assurance procedure	Results and conclusions
and valuation of the material account areas of fixed assets and accruals. This subjectivity represents an increased risk of misstatement in the financial statements	<p>Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</p> <p>Assessment of indexation factors applied to fixed assets to ensure these are from a reliable source.</p>	<p>No issues were identified from our review of accounting policies.</p> <p>No issues were identified from our substantive testing of Indexation applied to land and buildings.</p>

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

<p><b>4 Financial sustainability</b> 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 2019/20.</p> <p>Although NMS are on course to meet its financial target in 2019/20, 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>Regular communication with senior finance staff regarding budget plans and finance reports.</p> <p>Focused cut off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p> <p>Review medium term financial forecast.</p>	<p>We have discussed financial sustainability and ongoing financial pressures with management and reviewed budgets and forecasts for 2020/21 and beyond.</p> <p>No issues were identified with cut-off testing of income and expenditure.</p> <p>We have made a recommendation with regards to budget monitoring going forward. See <a href="#">Appendix 1, Recommendation 4</a>.</p>
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# Appendix 3

## Summary of national performance reports 2019/20

		 <b>2019/20 Reports</b>	
		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

### Central Government relevant reports

[Social security: Implementing the devolved powers](#) – May 2019

[Enabling digital government](#) – June 2019

[Scotland's City Region and Growth Deals](#) – October 2019

[Privately financed infrastructure investment: The Non-Profit Distributing \(NPD\) and hub models](#) – Jan 2020

[Early learning and childcare: follow-up](#) – March 2020

# National Museums Scotland

## 2019/20 Annual Audit Report

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