

National Museums Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 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 2021.

Financial management and sustainability

- 3 There is appropriate and effective financial management in place.
- 4 NMS have adapted their systems of internal control to reflect new ways of working and have maintained standards for the prevention and detection of fraud and error.
- 5 The Covid-19 outbreak has had an impact on the short-term finances of the body. Commercial income was reduced, and operational costs were below budget as a result of the reduction in public programmes due to the closure of the museums. NMS took the opportunity to address backlog maintenance.

Governance, transparency and value for money

- 6 There are appropriate and effective governance arrangements in place.
- 7 Governance arrangements have been adapted to reflect the impact of the Covid-19 pandemic.
- 8 Performance monitoring has continued throughout 2020/21, the Covid-19 pandemic has had a significant impact on NMS's key performance indicators.
- 9 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.

Introduction

1. This report summarises the findings from our 2020/21 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 10 March 2021 meeting of the Audit and Risk Committee (ARC). This report comprises the findings from our:
 - audit of NMS's annual report and accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
 - an audit of NMS 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - a review of NMS's key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a considerable impact on NMS during 2020/21. Due to Covid-19, their four museums were closed from the beginning of the financial year until a phased reopening in August/September 2020. Museums were then closed again in December and remained closed to the end of the financial year. There was a 94% decrease of museum visits compared to the prior year. This resulted in a fall in commercial income.

Adding value through the audit

5. 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 4](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

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. NMS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

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. 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.

9. 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.

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

Auditor Independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

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 2020/21 audit fee of £24,450 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 the body and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

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

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

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

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 2021.

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 2021 are to be approved by the Board on 21/09/2021. As reported in the 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 were 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.

The Covid-19 pandemic had a limited impact on audit evidence

17. The working papers provided to support the accounts were of a good standard and the audit team received support from the finance team which helped ensure the final accounts audit process ran smoothly.

There were no delays in preparing and auditing the annual report and financial statements

18. The unaudited annual report and accounts were received in line with our agreed audit timetable on 21 June 2021. Covid-19 had a limited impact on the audit process.

Whole of Government Accounts

19. In accordance with the WGA guidance, we anticipate completing the required assurance statement and submitting it to the National Audit Office (NAO) by the end of September 2021, after Board approval and audit certification of NMS's annual report and accounts.

Overall materiality is £1.9 million

20. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual report and accounts and we confirmed that the levels remained appropriate. This is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£1.9 million
Performance materiality	£1.4 million
Reporting threshold	£40 thousand

Source: Audit Scotland

[Appendix 2](#) identifies the main risks of material misstatement and our audit work to address these

21. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual report and accounts

22. 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. We have reported one issue from the work done on the identified risks of material misstatement, as summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Indices used for valuations required updating</p> <p>As detailed in NMS's accounting policies, land and buildings are valued every five years by a professional valuer. In years when a formal evaluation has not taken place buildings are re-valued annually using indices supplied by the Building Cost Information Service (BCIS) of Royal Institution of Chartered Surveyors (RICS) to estimate their value. A full valuation was not carried out during 2020/21 and therefore valuations at 31 March 2021 had been updated using indices. As part of our audit, we identified that the indices applied in 2020/21 were estimates from January 2020 and that more up-to-date indices should have been used in order to reflect current market conditions.</p>	<p>Management obtained updated indices and the values of land and buildings at 31 March 2021 in the accounts were updated using this information. This resulted in the net book value of tangible assets decreasing by £9.6 million in the Balance Sheet and the depreciation charge for the year decreasing by £0.2 million.</p>

Source: Audit Scotland

Identified misstatements above our performance materiality were adjusted in the accounts. Due to the isolated nature of the error, our audit procedures did not need to be revised.

23. As reported in [Exhibit 2](#) above, misstatements of £9.8 million were identified in the financial statements. We reviewed the nature and cause of this misstatement and have concluded that it arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

24. We also identified one item of expenditure totalling £44k relating to 2020/21 which had been included in 2021/22. The finance team advised us that this had been missed as part of the accruals process. The reason was that the invoice was processed before the outstanding purchase order report had been run. Our cut off sample covered all items above our reporting threshold, with items reviewed from the April 2021 bank statements and review of all expenditure included in periods 1 and 2 of 2021/22 financial year. We found no other instances of amounts being incorrectly classified in the period. We reviewed our audit approach to consider if additional testing was required and deemed this was not necessary as all items above clearly trivial had been selected as part of the first sample. This error has not been adjusted in the final version of the accounts. If it was adjusted, it would increase expenditure in the Statement of Financial Activities by £44k. ([Appendix 3](#)).

25. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. The gross sum of the unadjusted errors is below our materiality and has not affected our opinion.

Other Findings

26. Our audit work identified that NMS did not achieve Cyber Essentials Plus Re-Accreditation in 2020/21 or 2019/20. The accreditation achieved during 2018/19 expired in October 2019. See [paragraph 60](#).

Good progress was made on prior year recommendations

27. NMS has made good progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

There is appropriate and effective financial management in place.

NMS have adapted their systems of internal control to reflect new ways of working and have maintained standards for the prevention and detection of fraud and error.

Financial performance in 2020/21

28. 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.

29. NMS have reported an outturn of £23.677million and remained within their overall budget for 2020/21. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against DEL in 2020/21

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	22.912	21.827	(1.085)
Capital DEL	1.850	1.850	nil
Total DEL	24.762	23.677	(1.085)

Source: NMS 2020/21 accounts; NMS 2020/21 grant in aid letter.

2020/21 Financial Position

30. A large element of NMS's resource expenditure consists of staff costs, which amounted to around £16.7million. 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 £23.7m (86% of overall income) in 2020/21.

31. 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. This also includes £958k in Covid-19 support via the Coronavirus Job Retention Scheme.

Budgetary processes are appropriate

32. We reviewed NMS's budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at Audit and Risk Committees we confirmed that senior management and trustees continue to receive regular, timely and up to date financial information on the financial position.

33. We concluded that NMS have sound budgetary processes that allow Board members and officers to carry out effective scrutiny of finances.

Systems of internal control

34. 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.

35. During our interim audit work which started in February 2021 we reviewed key financial systems and assessed controls in the general ledger, payroll and banking.

36. 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.

37. We concluded that the controls tested were operating effectively, except for controls over journal authorisation. Due to a restructure of the finance team, there has been a change in the reviewer process for journal entries. We identified some journals did not have evidence available to show these had been reviewed by a senior officer.

Recommendation 1

An independent review of journals should be completed and evidenced on a monthly basis by a senior officer.

Internal audit

38. The internal audit function is carried out by MHA Henderson Loggie. 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 2020/21 concluded that, with the exception of their review of Health & Safety, NMS has adequate and effective arrangements for risk management, control, and governance. The Health & Safety report identified areas of weakness in administration which are being addressed.

39. We reviewed NMS's internal audit function in terms of International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent to which we could use the work of internal audit. 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. We consider internal audit reports and findings to provide assurance over the wider audit dimensions we comment on later in this report.

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

40. 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.

41. 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.

3. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

The Covid-19 outbreak has had an impact on the short-term finances of the body. Commercial income was reduced, and operational costs were below budget as a result of the reduction in public programmes due to the closure of museums. NMS took the opportunity to address backlog maintenance.

NMS's medium-term financial plan has been revised to reflect the impact of the Covid-19 pandemic

42. The financial impact of the pandemic on NMS is likely to extend across several years, and this has been acknowledged in their most recent budget. Ongoing pressures on generating income out with Grant in Aid is an area of concern.

43. The draft budget for 2021/22 was presented to the Board on 24th March 2021. The budget sets out £27.235 million total expenditure in 2021/22 and income is expected to be £26.228 including £23.448 million Grant in Aid from the Scottish Government (SG). This funding will therefore remain NMS's main (89%) source of income. The £2.78 million of non-GIA revenue, includes income from self-generation, other grants, exhibitions and trading.

44. The budget acknowledges the uncertainties behind the figures and what the new "normal" may be. Management are confident with their ongoing scenario planning and with the continued support from the Scottish Government, they expect to provide visitors during 2021/22 a high level of service and experience.

45. NMS's greatest concern is in the medium to longer term. Management acknowledges the uncertainty in the future of the overall economy and continued funding. NMS will carry out a review of Philanthropic and Commercial income in 2021/22 to assess the risk in future years forecasts.

4. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

There are appropriate and effective governance arrangements in place.

Governance arrangements have been adapted to reflect the impact of the Covid-19 pandemic.

Governance arrangements

46. 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.

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

48. 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 Committee

49. 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.

50. 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.

51. 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.

52. 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.

53. The impact of Covid-19 from March 2020 has been set out in NMS's annual report and accounts. We reported in last year's annual audit report on the revised governance arrangements introduced by NMS which included moving all Board and committee meetings virtually in order to maintain good governance.

54. We have also reviewed revisions to key financial controls as a result of Covid-19 during 2020/21. We can confirm that appropriate controls were in place and operating during the year.

Openness and transparency

55. 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.

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

57. 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

58. 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.

59. In 2018/19 we reported NMS had achieved Cyber Essentials Plus accreditation. The re-accreditation had not been achieved in 2019/20 and has not been achieved for 2020/21. 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.

60. Management expects 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.

5. Value for money

Using resources effectively and continually improving services

Main judgements

Performance monitoring has continued throughout 2020/21, the Covid-19 pandemic has had a significant impact on NMS's key performance indicators.

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.

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

61. [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 characteristics of best value and states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

62. From our discussions with officers, review of Board and committee papers and attendance at committee meetings, we conclude that NMS has satisfactory best value arrangements and performance reporting in place.

Performance Management

63. 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 2020-22 Strategic Plan Update.

64. Responsibility for detailed review and scrutiny of operational and financial performance lies with the Board which meets quarterly.

65. 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. These planned performance targets were paused for the financial period due to the impacts of Covid-19. Key Performance Indicators (KPI's) expectedly underperformed due to the Museum closures throughout 2020/21. The initial KPI targets for 2020/21 were suspended but the actual KPI data continued to be reported as usual to the Board.

66. 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

67. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of interest to the NMS. These are outlined in [Appendix 4](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Journal Authorisation</p> <p>We identified through our journals testing that there was no evidence of secondary review of journals prepared by the Head of Finance.</p> <p>Risk</p> <p>There is a risk that journals are entered in error and not identified by secondary review.</p>	<p>An independent review of journals on a monthly basis should be completed and evidenced by a senior officer.</p> <p>Paragraph 38</p>	<p>Agreed action: Each month the Head of Finance will email the journals spreadsheet for the month to the Director of Finance, Planning & ICT who will evidence approval of the Head of Finance's journals by emailed reply.</p> <p>Responsible officer: Director of Finance, Planning & ICT and Head of Finance</p> <p>Agreed date: 1 April 2021</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Purchase Orders</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>Risk</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>Complete</p> <p>As part of our audit work we reviewed the controls in place around this area. Our testing confirmed NMS have continued to use this process throughout 2020/21 and this has reduced the associated risk.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Segregation of duty – bank reconciliations</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>Risk</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>Complete</p> <p>Bank reconciliations are now reviewed and evidenced by a second officer.</p>
<p>4. Procurement training for staff</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>Risk</p> <p>There is a risk that staff do not follow the most up to date procurement guidance and best practice if regular training is not provided.</p>	<p>Training should be considered for relevant staff to ensure the procurement processes are followed appropriately.</p>	<p>In Progress</p> <p>Head of Finance advised she had attended virtual procurement training at Public Contracts Scotland, noting the processes between both are interchangeable. She is working closely with the Training Manager to arrange procurement training for all required staff during 2021/22 but due to the ongoing restrictions this has not been possible thus far.</p> <p>Responsible Officer: Head of Finance</p> <p>Revised Date: August 2021</p>
<p>5. Budget forecasts require revision</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>Budget forecasts should continue to be revised to determine the financial impact of Covid-19 on NMS in the medium term.</p>	<p>Complete</p> <p>The most recent annual budget for 2021/22 was presented to the Board on 24 March 2021. This showed adequate consideration of the potential impact of Covid-19 on the financial position of NMS in future years and produced conservative estimations of income based on the assumption of</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk</p> <p>There is a risk that NMS's financial sustainability will be adversely affected by Covid-19 in future years.</p>		<p>continued disruption. Although we consider this issue closed, continued monitoring and adaptation is required by NMS to address the continually shifting environment.</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement caused by management override of controls</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 in the financial statements caused by fraud, which is presumed to be a significant risk in any audit.</p> <p>This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Results: We tested a sample of journal entries and agreed to source documentations. There were no issues to report.</p> <p>We reviewed the accounting policies and estimates applied in the financial statements. We concluded that these were appropriate for NMS.</p> <p>We carried out testing of creditor and debtor balances to ensure they were valid and posted to the correct financial year. There were no matters to report.</p> <p>Conclusion: Satisfactory</p>
<p>2. Risk of material misstatement caused by fraud in revenue recognition and expenditure recognition</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,</p>	<p>Effective budget monitoring and control by management.</p> <p>Participation in the National Fraud Initiative.</p>	<p>Results: Sample testing of income and expenditure transactions was satisfactory.</p> <p>We assessed the controls in place for both income and expenditure recognition and undertook substantive testing of material year end balances. No issues were identified, and we were able to conclude that controls were operating effectively.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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>Conclusion: Satisfactory</p>
<p>3. Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and liabilities.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>Effective budget monitoring and control by management.</p> <p>Regular reporting to the Board, Audit and Risk Committee and Corporate Management Team.</p> <p>RICS approved indexation factors for the valuation of land and buildings are applied in the years where a full revaluation is not undertaken.</p>	<p>Effective budget monitoring and control by management. Regular reporting to the Board, Audit and Risk Committee and Corporate Management Team.</p> <p>RICS approved indexation factors for the valuation of land and buildings are applied in the years where a full revaluation is not undertaken.</p>	<p>Results: We reviewed the indexation calculation which was applied to NMS's buildings and found that the figures being used were out of date. This was causing a revaluation increase in the accounts, whereas more up to date figures were showing a reduction in value. See Exhibit 2.</p> <p>Conclusion: Satisfactory</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability</p> <p>NMS, like other public sector bodies, face challenges and uncertainty over future funding allocations. The main</p>	<p>Effective budget monitoring and control by the finance team.</p> <p>Regular financial reporting to the Board, Finance, Audit and</p>	<p>Results: We have discussed financial sustainability and ongoing financial pressures with management and reviewed budgets and</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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 a surplus for 2020/21.</p> <p>Although NMS are on course to meet its financial target in 2020/21, the organisation continues to face a risk over its financial sustainability in the coming years due to uncertainty over future funding allocations and the impact of Covid-19 on its income sources.</p>	<p>Risk Committees and Corporate Management Team.</p> <p>Ongoing communication with the Scottish Government sponsor division.</p> <p>A 3-year financial forecast is produced by the finance team which includes scenario planning.</p>	<p>forecasts for 2021/22 and beyond.</p> <p>Conclusions: One issue was identified with cut off testing. No other errors were identified. See Paragraph 24</p>

Appendix 3. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £40k.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
1. Accruals				(44)
Expenditure	44			
Net impact	44			(44)

Appendix 4. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

National Museums Scotland

2020/21 Annual Audit Report

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