

National Galleries of Scotland

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for National Galleries of Scotland
March 2023

Contents

Introduction	3
Annual Report and Financial Statements audit planning	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	12
Other matters	15
Appendix 1. Your audit team	17

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of National Galleries of Scotland (NGS). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and financial statements, and provision of an independent auditor's report
- an audit opinion on regularity and other statutory information published within the annual report and financial statements including the trustees' annual report, the governance statement and the remuneration and staff report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership, and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Whole of Government Accounts (WGA) return.

Audit Appointment

2. We are pleased to be appointed as the external auditor of NGS for the period 2022/23 to 2027/28 inclusive. You can find a brief biography of your audit team at [appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to NGS through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help NGS

promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Risk Committee and actively participate in discussions.

Respective responsibilities of the auditor and NGS

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and NGS. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and financial statements. We also review and report on the arrangements within NGS to manage its performance, regularity, and use of resources. In doing this, we aim to support improvement and accountability.

NGS responsibilities

9. NGS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. NGS is responsible for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives.

11. The audit of the financial statements does not relieve management or the Trustees, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

12. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the Committee or Board of Trustees have any such knowledge or concerns relating to the risk of fraud within NGS, we invite them to communicate this to us for our consideration.

Annual Report and Financial Statements audit planning

Introduction

13. The annual report and financial statements are an essential part of demonstrating the National Galleries of Scotland's (NGS) stewardship of resources and its performance in the use of those resources.

14. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

15. Materiality is an expression of the relative significance of a matter in the context of the annual report and financial statements. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the annual report and financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

16. The materiality levels for NGS and its group are set out in [exhibit 1](#).

Exhibit 1

2022/23 materiality levels for NGS and its group

Materiality	NGS and Group
<p>Planning materiality: This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross group assets for the year ended 31 March 2022 based on the latest audited financial statements for 2021/22. We have used gross assets as the basis for calculating materiality as a primary function of National Galleries of Scotland is to operate as a custodian of public assets. This treatment is in line with ISA (UK) 320 (<i>Materiality in planning and performing an audit</i>) and Practice Note 10 (<i>Audit of financial statements and regularity of public sector bodies in the United Kingdom</i>).</p>	£5.530 million

<p>Performance materiality: 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 assessed performance materiality at 65% of planning materiality.</p>	<p>£3.595 million</p>
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<p>Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have ensured this threshold is reasonable to allow appropriate testing of income and expenditure items.</p>	<p>£0.055 million</p>
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Source: Audit Scotland

Significant risk of material misstatement to the annual report and financial statements

17. Our risk assessment draws on our knowledge of NGS, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management and internal audit, attendance at committees and a review of supporting information.

18. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance

19. Based on our risk assessment process, we identified the following significant risk of material misstatement to the annual report and financial statements. This risk has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 significant risk of material misstatement to the annual report and financial statements

Significant risk of material misstatement	Sources of management assurance	Planned audit response
<p>1. Management override of controls</p> <p>As stated in ISA (UK) 240 (<i>The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</i>), management is in a unique position to perpetrate fraud because of their ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantive testing of income and expenditure transactions at the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

Other area of audit focus

20. As part of our assessment of audit risks, we have identified one other area where we consider there is also risks of material misstatement to the annual report and financial statements, being the valuation of land and buildings. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent significant risk. We will keep this area under review as our audit progresses. If our assessment of risk changes and we consider this risk to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

21. The other area of specific audit focus is:

- Valuation of land and buildings:** NGS hold land and buildings with a Net Book Value of £113.900 million as at 31 March 2022, with land and buildings

revaluated on a five-year rolling basis. Royal Institute of Chartered Surveyors (RICS) approved indexation factors for the valuation of NGS' land and buildings are applied in the years where a full revaluation is not undertaken. A full revaluation was undertaken in 2021/22. For 2022/23 the RICS indexation factors will be applied.

Consideration of the risks of fraud in the recognition of income and expenditure

22. As set out in ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), there is a presumed risk of fraud over the recognition of income. We have rebutted this risk for NGS as the main source of income is grant in aid funding from the Scottish Government. In addition, NGS other income streams mainly comprise of high volume, low value items that are unlikely to result in a material misstatement due to fraud due to the limited incentive to manipulate the recognition of this income in the financial statements.

23. In line with Practice Note 10 (*Audit of financial statements and regularity of public sector bodies in the United Kingdom*), as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to income recognition. We have rebutted this risk for NGS as the main expenditure streams, such as staff costs, can be readily forecast on a predictable pattern of spend. Based on our risk assessment to date we consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

24. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. Our audit testing will maintain an oversight of any unusual transactions or accounting entries.

Group Consideration

25. As group auditors, we are required under ISA (UK) 600 (*Audits of group financial statements (including the work of component auditors)*) to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

26. NGS has a group which comprises NGS and one component entity, a subsidiary. The audit of the financial information of the subsidiary is performed by other auditors. Based on our discussion with management and assessment of the group, the only significant group component is NGS, which accounts for over 97% of the consolidated total income and expenditure and 100% of the group's net assets. At this stage, it has been assessed that, other than NGS, there are no other significant group components. All non-significant components will be covered by an analytical review at the group level.

27. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the component on which to base our group audit opinion.

Wider Scope and Best Value

Introduction

28. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

29. In summary, the four wider scope areas cover the following:

- **Financial management:** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability:** as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium-term (two to five years) and longer-term (longer than five years).
- **Vision, leadership, and governance:** we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by National Galleries of Scotland (NGS). We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes:** we will consider how NGS demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Significant wider scope risk

30. We have identified one significant wider scope audit risk in relation to the financial management of the ongoing Scottish National Gallery project, as set out in [exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over this risk. The conclusions from this work will be reported in our 2022/23 annual audit report.

31. Our risk assessment has not identified any significant risks in respect of the other wider scope areas.

Financial sustainability

32. Whilst not a significant audit risk, the challenging financial environment in which NGS, along with other public sector bodies, is operating in, has been identified as an area of audit focus. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over future Scottish Government funding allocations, the rising cost of inflation and the cost of implementing future pay settlements. Our annual audit report will include comment on NGS' 2022/23 financial outturn, 2023/24 budget, and its medium-term financial plan.

Exhibit 3

2022/23 wider scope risk

Description of risk	Sources of management assurance	Planned audit response
<p>1. Financial Management - The Scottish National Gallery (SNG) project</p> <p>In our 2021/22 annual audit report we commented on the SNG project, noting the impact of delays on the original budget and timetable for completion.</p> <p>The revised budget was reported as being £37.500 million, with the galleries planned opening scheduled for the summer of 2023.</p> <p>Risk: the project is delayed further resulting in additional costs to the organisation.</p>	<ul style="list-style-type: none"> • Effective budget monitoring by management and the Major Capital Programme Committee. • Detailed monitoring of capital project spend and funding forecasts which are reported to the Board and Audit and Risk Committee. • Ongoing communication with key funders of capital projects. 	<ul style="list-style-type: none"> • Discussions with management regarding project and budget plans. • Ongoing monitoring of budgeting and finance reports presented to the Board, Audit and Risk Committee and the Major Capital Programme Committee. • Year-end testing on capital expenditure and classification of assets under construction.

Source: Audit Scotland

33. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector. In 2022/23 we will consider NGS' approach to tackling climate change.

Climate Change

34. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change. The Auditor General and Accounts Commission are developing a programme of work on climate change.

35. In 2022/23 we will gather information on NGS' arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

National Fraud Initiative (NFI)

36. NGS participates in the NFI in Scotland. We will monitor its progress with investigating the matches identified by this exercise.

Duty of Best Value

37. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual \(SPFM\)](#) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within NGS.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

38. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs, as detailed in [exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

39. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

40. We will provide an independent auditor's report to National Galleries of Scotland (NGS), the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and financial statements. We will provide NGS and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

41. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by Audit Scotland's deadline of 31 October 2023.

Exhibit 4

2022/23 Audit outputs

Audit Output	Latest date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	9 March 2023
Independent Auditor's Report	31 October 2023	6 September 2023
Annual Audit Report	31 October 2023	6 September 2023

Source: Audit Scotland



Timetable

42. To support an efficient audit, it is critical that the timetable for producing the annual report and financial statements for audit is achieved. We have included a proposed timetable for the audit at [exhibit 5](#) that has been discussed and agreed with management.

43. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes for the completion of the audit under review. Progress will be discussed with management over the course of the audit.

Exhibit 5

Proposed annual report and financial statements timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and financial statements with complete working papers package.	23 June 2023
Latest date for final clearance meeting with the Finance Director, agreement of the audited and unsigned annual report and financial statements and the proposed annual audit report.	11 August 2023
Issue of proposed annual audit report, letter of management representation and proposed independent auditor's report to those charged with governance.	18 August 2023
Presentation of proposed annual audit report to those charged with governance.	6 September 2023
Approval of the National Galleries of Scotland annual report and financial statements by the Board of Trustees, independent auditor's report signed electronically following this approval and the final annual audit report issued.	11 September 2023
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

44. In determining the audit fee, we have taken account of the risk exposure of NGS and the planned management assurances in place. The audit fee for 2022/23 is £31,780 (£24,340 in 2021/22).

45. Our fees have increased in 2022/23. This is primarily because of the current audit market and the rising costs associated with delivering high quality audit work together with increased regulatory expectations.

46. In setting the fee for 2022/23 we have assumed that NGS has effective governance arrangements and will prepare comprehensive and accurate financial statements for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

47. It is the responsibility of National Galleries of Scotland (NGS) to establish adequate internal audit arrangements. NGS' internal audit function is provided by Henderson Loggie.

48. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

49. Auditors appointed by the Auditor General for Scotland must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

50. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

51. The appointed auditor for National Galleries of Scotland is Andrew Kerr, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of National Galleries of Scotland.

Audit Quality

52. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

53. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC1). This set out an audit practice's responsibilities for its system of quality control for audits

54. Two new audit quality standards apply from 2022/23; Internal Standard on Quality Management (ISQM) 1 and 2 and will replace ISQC1. Work is underway at Audit Scotland to meet the requirements of these quality standards.

55. Audit Scotland are committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

56. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

57. The core members of the audit team involved in the audit of National Galleries of Scotland (NGS) are noted below. The audit team will be supplemented by additional staff during peak times

Andrew Kerr CA
Senior Audit Manager
akerr@audit-scotland.gov.uk

Andrew is the appointed auditor for the audit of NGS and will sign off the independent auditor's report on NGS' annual report and financial statements. Andrew has 10 years of auditing experience and has delivered external audit services to a range of organisations across all areas of the Scottish public sector.

Gemma McNally CA
Senior Auditor
gmcnally@audit-scotland.gov.uk

Gemma has considerable experience in planning and delivering audits. Gemma will lead and be responsible for day-to-day management of the audit and who will be your primary contact.

Kirsten Sharp
Professional Trainee
ksharp@audit-scotland.gov.uk

Kirsten has recently passed the last of her professional accountancy exams. She will support Gemma in undertaking the audit fieldwork.

58. The local audit team is supported by a specialist technical accounting team, all of whom have considerable experience of public bodies and work with accounting regulatory bodies.

National Galleries of Scotland

Annual Audit Plan 2022/23

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

For the latest news follow us on social media or [subscribe to our email alerts.](#)



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