

National Galleries of Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the National Galleries of Scotland and the Auditor General for Scotland
September 2024

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Key messages

2023/24 Annual Report and Financial Statements

- 1 An unqualified independent auditor's report has been issued for the 2023/24 Annual Report and Financial Statements.
- 2 We identified a number of errors in the accounting for the Scottish National Gallery revaluation. The correction and improvement of these issues required significant additional management and audit input to ensure the Financial Statements are free from material misstatement.

Financial management

- 3 National Galleries of Scotland (NGS) operated within its budget in 2023/24.
- 4 The new Scottish National Gallery opened in September 2023.
- 5 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 6 The Board of Trustees approved a balanced budget for the 2024/25 financial year.
- 7 Planning for the medium-term is challenging given the uncertainties over future funding settlements, public sector reform and cost pressures.

Vision, leadership and governance

- 8 NGS has a clear vision and strategy.
- 9 Effective governance and decision-making arrangements were in place during 2023/24 with business conducted in an open and transparent manner.

Use of resources to improve outcomes

- 10 NGS has arrangements in place to secure Best Value. A performance management framework is in place and performance levels are strong across most key areas.

Introduction

1. I, Andrew Kerr, have been appointed by the Auditor General for Scotland as auditor of National Galleries of Scotland (NGS) for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment. My appointment coincides with the new Code of Audit Practice which was introduced for financial years commencing on or after 1 April 2022.
2. My team and I would like to thank management and staff, particularly those in finance, for their cooperation and assistance in this year.
3. This report summarises the findings from the 2023/24 annual audit of NGS. The scope of the audit was set out in an Annual Audit Plan presented to the 7 March 2024 meeting of the Audit and Risk Committee (ARC). This Annual Audit Report comprises:
 - significant matters arising from an audit of NGS's Annual Report and Financial Statements.
 - conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.
4. This report is addressed to the Board of NGS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting.

5. NGS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an Annual Report and Financial Statements that are in accordance with the account's direction from the Scottish Ministers. NGS is also responsible for establishing appropriate and effective arrangements for governance, propriety, and regularity.
6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.
7. 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 of NGS from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Communication of fraud or suspected fraud.

9. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this report 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. Should Trustees have any such knowledge or concerns relating to the risk of fraud within NGS, we invite them to communicate this to the appointed auditor for consideration prior to the Annual Report and Financial Statements being certified.

Auditor Independence.

10. 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 2023/24 audit fee of £33,700 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to NGS by:

- identifying and providing insight on significant risks and making clear and relevant recommendations.
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 Annual Report and Financial Statements

NGS are required to prepare an Annual Report and Financial Statements. This is the principal means of accounting for the stewardship public funds.

Main judgements

An unqualified independent auditor's report has been issued for the 2023/24 Annual Report and Financial Statements.

We identified a number of errors in the accounting for the Scottish National Gallery revaluation. The correction and improvement of these issues required significant additional management and audit input to ensure the Financial Statements are free from material misstatement.

Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.

The Trustees' Annual Report, Governance Statement and the Remuneration and Staff Report are consistent with the Financial Statements and properly prepared in accordance with applicable guidance.

An unqualified independent auditor's report has been issued for the 2023/24 Annual Report and Financial Statements.

12. The Board approved the Annual Report and Financial Statements for National Galleries of Scotland and its group for the year ended 31 March 2024 on 9 September 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements of NGS and its group give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- the expenditure and income in the Financial Statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

- the Trustees' Annual Report, Governance Statement and the audited part of the Remuneration and Staff Report were consistent with the Financial Statements and properly prepared in accordance with the relevant legislation and guidance.

13. We are satisfied that there are no matters upon which we are required by the Auditor General to report by exception.

The unaudited Annual Report and Financial Statements were received in line with the agreed audit timetable.

14. The unaudited Annual Report and Financial Statements were received in line with our agreed audit timetable on 24 June 2024. The Annual Report and Financial Statements submitted for audit were of a good standard as were the supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Overall materiality was assessed as £5.500 million.

15. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

16. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed on receipt of the unaudited Annual Report and Financial Statements and is summarised in [exhibit 1](#).

Exhibit 1

Materiality levels

Materiality level	Amount
<p>Overall 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 net group assets for the year ended 31 March 2024. 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>	£5.500 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>	£3.575 million

Materiality level	Amount
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.	£0.055 million

Source: Audit Scotland

We identified a number of errors in the accounting for the Scottish National Gallery revaluation. The correction and improvement of these issues required significant additional management and audit input to ensure the Financial Statements are free from material misstatement.

17. Our audit identified a number of errors that required adjustments to the Financial Statements. This included a £0.202 million adjustment increase to the prior year net movement on funds. These were discussed with management who agreed to correct the Financial Statements for those issues above our reporting threshold. The effect of these changes resulted in the net movement in funds in the group Statement of Financial Activities moving from an expenditure position of £18.198 million in the unaudited Financial Statements to £17.936 million, a net movement of £0.262 million. Additionally, the group net assets increased by £0.463 million. Primarily, the identified issues arose from our review of the revaluation of the Scottish National Gallery and the subsequent accounting of this. Further detail on the main adjustments can be found at [exhibit 2](#).

We have significant findings to report on the Annual Report and Financial Statements.

18. Under ISA (UK) 260 (*Communication with Those Charged with Governance*), we communicate significant findings from the audit to the Board of Trustees, including our view about the qualitative aspects of NGS's accounting practices.

19. The Code of Audit Practice also requires all auditors to communicate key audit matters within the Annual Audit Report under ISA (UK) 701 (*Communicating key audit matters in the Independent Auditor's Report*). These are matters that we judged to be of most significance in our audit of the financial statements.

20. [Exhibit 2](#) set out the issues to report from the audit.

21. The qualitative aspects of NGS's accounting practices, accounting policies, accounting estimates and accounts disclosures are satisfactory and appropriate.

22. In accordance with normal audit practice, a few presentational and disclosure amendments were discussed and agreed with management. The disclosure changes were satisfactory.

Exhibit 2

Significant findings from the audit of the Annual Report and Financial Statements

Issue	Resolution
<p>1. Scottish National Gallery (SNG) revaluation accounting treatment</p> <p>Our assessment of the accounting treatment of the SNG revaluation identified the following issues:</p> <ul style="list-style-type: none"> • The SNG project incurred construction costs of £38.332 million. It became operational in 2023/24. At this time, it had a gross book value of £46.668 million. It was revalued as at 31 March 2024. The revaluation resulted in a write down of £25.153 million. As most of the value was derived from the additions, there was no historic Revaluation Reserve balance relating to this asset. However, the movement was incorrectly charged in total to the Revaluation Reserve. • Depreciation was not charged on the main SNG asset and its newly completed element for 2023/24. 	<p>Management agreed that it was not appropriate for the full downward revaluation to be applied to the Revaluation Reserve balance given this was due to the write off of capital expenditure on the new area of the SNG. £25.153 million was treated as an impairment.</p> <p>The correct depreciation has now been applied. This resulted in changes to figures in Note 8 Tangible Assets but had a nil net impact on the depreciation charge and not net impact on total reserves for 2023/24.</p>
<p>2. SNG revaluation</p> <p>We reviewed the valuer's calculation in support of the SNG revaluation. The following errors were identified:</p> <ul style="list-style-type: none"> • The incorrect Gross Internal Area (GIA) had been used. • VAT and finance costs had incorrectly been added to the valuation. <p>The above resulted in the valuation being understated by £0.165 million.</p>	<p>Management have adjusted the financial statements to reflect the updated valuation.</p> <p>Having discussed the issue with both management and the valuer, and having reviewed the updated calculation and supporting documents, including the drawings that support the GIA, we are satisfied the updated valuation is accurate and reasonable.</p>
<p>3. Reserves</p> <p>During our assessment of the SNG revaluation we identified that the Revaluation Reserve balance could not be accurately allocated to the assets within the NGS property portfolio.</p> <p>Through further discussion with management, it was determined that NGS was not able to ascertain what proportion of fixed asset reserves related to which assets.</p> <p>This limits NGS's ability to confirm the accuracy of these balances.</p>	<p>Management have carried out a review of the Revaluation Reserve based on historical valuation information. This review was subsequently extended to the rest of NGS's reserves.</p> <p>This has resulted in the significant re-working and improvement of the reserves, including the presentation of these at Note 17 to the Financial Statements.</p> <p>The presentation of the audited reserves better reflect the split of funds held by NGS in its Balance Sheet. We are satisfied with the accounting adjustments and</p>

presentational changes made to the reserves.

However, in line with our recommendation, management have agreed to undertake a further review of reserves prior to the preparation of the 2024/25 Annual Report and Financial Statements. Additionally, consideration should be given to procuring fixed asset software to support the accuracy of the record keeping.

[See Appendix 1 – recommendation 1](#)

4. Exit package costs

It was identified during testing that £0.045 million of staff redundancy costs were incorrectly capitalised as part of the SNG Asset Under Construction (AUC). Under accounting standards these costs do not qualify as directly attributable costs, and therefore should be charged to revenue.

The identification of these costs also required amendment to disclosures in the Remuneration and Staff Report, where it had been previously disclosed that there was no redundancy or exit payments made during 2023/24. Our testing confirmed there were two departures totalling £0.058 million, including the above £0.045 million.

Due to the immaterial value of the error, management made no adjustment to the SNG AUC.

Management did amend the Remuneration and Staff Report to disclose the redundancy payments.

We are content that the issue was isolated to this single instance.

5. Revenue charged as capital

It was identified during testing that £0.235 million of revenue costs for the promotion of the SNG opening were incorrectly capitalised as part of the SNG AUC. Under accounting standards these are not costs associated with fixed assets and as such require to be charged to revenue.

Management reviewed and removed all non-qualifying costs.

Due to these costs only being incurred at the end of the SNG project, we are satisfied that this issue is isolated to the identified items.

6. Accounting for donated income

Our testing identified balances relating to donated income totalling £0.122 million. These donations had no restrictions or conditions placed on them by the grantor. NGS accounted for these items as deferred income.

The Charities SORP 2019 makes it clear that a donation or grant received without any conditions should not be deferred even if the income is received in advance of the expected expenditure on the activity funded by grantor.

Given the immaterial nature of the items, management have not adjusted for these.

Management should undertake a review of the items that make up the deferred income balance to ensure compliance with the SORP.

[See Appendix 1 – recommendation 2](#)

Our audit work responded to the risks of material misstatement we identified in the Annual Report and Financial Statements.

23. We have obtained audit assurances over the identified significant risks of material misstatement in the Annual Report and Financial Statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the Annual Report and Financial Statements

Audit risk	Assurance procedure	Results and conclusions
<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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Results: We assessed the design and implementation of controls over journal entry processing. No issues were noted.</p> <p>Journal adjustments were tested, and no indication of management override of controls were found.</p> <p>We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>We reviewed transactions during the year - no issues were identified with significant transactions outside the normal course of business.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable.</p> <p>Conclusion: No instances of management override of controls were identified.</p>
<p>2. Significant estimation and judgement: Revaluation of the Scottish National Gallery</p> <p>The Scottish National Gallery became operational in September 2023 and will be subject to revaluation in 2023/24.</p>	<p>Evaluate the competence, capabilities, and objectivity of the professional valuer.</p> <p>Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Test the reconciliation between the financial</p>	<p>Results: Our review of the valuer's work confirmed the appropriateness of the methodology and assumptions used. We did not identify any non-compliance with RICS guidance.</p> <p>We found that management have an appropriate level of involvement and oversight of the valuation process.</p> <p>We did not identify any issues with the reconciliation between the financial ledger and the property asset register.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Risk: There is a significant degree of subjectivity with revaluations. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>ledger and the asset register.</p> <p>Critically assess the adequacy of NGS' disclosure regarding the assumptions in relation to the valuation of the Scottish National Gallery.</p>	<p>We found that appropriate disclosures have been made regarding the assumptions in relation to the valuation of land and buildings.</p> <p>Conclusion: Issues were identified with the assumptions applied to the revaluation however as detailed at exhibit 2 these were satisfactorily resolved.</p>

Source: Audit Scotland

24. In addition, we identified another area of audit focus in our 2023/24 Annual Audit Plan where we considered there to be a risk of material misstatement to the financial statements. The area of specific audit focus was:

- **Revaluation of other land and buildings:** For 2023/24 Building Cost Information Service (BCIS) indexation factors were applied. The use of indexation resulted in a net increase of £2.069 million to other land and buildings in 2023/24. We reviewed the indexation factor applied and concluded that management's assessment of the BCIS impact was reasonable. The use of indexation on these assets is separate to the SNG revaluation discussed at [exhibit 2](#) and [exhibit 3](#).

The Trustees' Annual Report complies with applicable guidance.

25. The Trustees' Annual Report is a narrative statement from the Trustees which the charity regulations (Charities SORP 2019) require to be included alongside the statement of accounts. Additionally, in line with the Accounts Direction, the Trustees' Annual Report should meet the requirements for a Performance Report in line with the HM Treasury Government Financial Reporting Manual (FReM).

26. The report should provide a fair, balanced, and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance, and financial position.

27. Our review of the Trustees' Annual Report found that it was of a good standard and covered all required disclosures.

The Governance Statement provides an appropriate level of disclosure on the NGS's governance arrangements during 2023/24.

28. The FReM requires inclusion of a Governance Statement in an Annual Report and Financial Statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format.

29. National Galleries of Scotland Governance Statement complies with SPFM guidance and presents a reasonable explanation and assessment of its governance arrangements for the year under review.

The audited part of the Remuneration and Staff Report was consistent with the financial statements and has been prepared in accordance with applicable guidance.

30. The FReM requires NGS as a Charitable Non-Departmental Public Bodies (NDPB) to disclose the content required of the Remuneration and Staff Report. This should include details of:

- the Galleries' remuneration policy.
- details of the remuneration of senior officers, including pension entitlements, for the financial year (and prior year comparator); and accrued pension benefits figures as at 31 March 2024.
- the number and cost of exit packages approved during the financial year.
- a percentile pay disclosure and a range of other information on staff costs, numbers, and related activity.

31. Except for point 4 in [exhibit 2](#) we have no issues to report in relation to the information disclosed within the Remuneration and Staff Report in the NGS 2023/24 Annual Report and Financial Statements.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

National Galleries of Scotland (NGS) operated within its budget in 2023/24.

The new Scottish National Gallery opened in September 2023.

There are well-established budget monitoring and reporting processes in place and NGS has appropriate financial control arrangements.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

National Galleries of Scotland operated within its budget in 2023/24.

32. The main financial objective for NGS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. NGS also must self-generate income and manage costs over the long-term to ensure its financial sustainability.

33. As a charitable Non-Departmental Public Body, NGS is primarily funded by the Scottish Government (SG) by way of grant-in-aid. For 2023/24, the single entity Financial Statements for NGS show that it received £22.123 million from the SG. This comprised a resource grant of £19.073 million and capital of £3.050 million.

34. NGS has reported a breakeven outturn against its overall budget for 2023/24. The financial performance against fiscal resources is shown in [exhibit 4](#).

35. Additionally, NGS applied for, and received, £15 million of annually managed expenditure (AME) from the SG. This was in relation to the impairment of the SNG following its revaluation in 2023/24.

Exhibit 4

Performance against fiscal resource in 2023/24

Performance	Final budget £'million	Outturn £'million	Variance (under)/over £'million
Resource	19.073	19.073	-
Capital	3.050	3.050	-
Total	22.123	22.123	-

Source: National Galleries of Scotland Audited 2023/24 Annual Report and Financial Statements

36. NGS also recognise other income of £10.133 million in its group Statement of Financial Activities. This consists of donations, income from charitable activities and income from other trading activities, including £2.799 million from NGS' subsidiary, NGS Trading Company Limited. The trading company's performance has continued to recover and is now back to pre-Covid levels (2018/19: £2.462 million). Additionally, other income streams such as exhibition admission fees (£1.097 million) and membership income (£0.438 million) have increased from the prior year (being £0.811 million and £0.337 million respectively).

37. A large element of NGS's resource budget expenditure (88%) consists of staff costs, which amounted to £16.853 million in 2023/24. Whilst NGS has continued its recovery from the pandemic, as evidenced by its improved income position, 2023/24 remained a challenging financial environment for it to operate in. The ongoing war in Ukraine has contributed to the rising cost of inflation which further increased maintenance and utilities costs. The implementation of pay settlements contributed to a £1.767 million increase in staff costs.

38. Overall, NGS remains in satisfactory financial health. The group balance sheet shows what is owned and owed by NGS as at 31 March 2024. This shows net assets of £369.102 million, decrease of £17.936 million on the prior year. This decrease is mainly attributable to downward revaluation of the Scottish National Gallery (see [exhibit 2](#)).

39. NGS continued to comply with its reserve strategy of maintaining at least £0.100 million available for use in its unrestricted General Fund, with £0.180 million being held as at 31 March 2024 (2022/23: £0.180 million). NGS considers this to be a reasonable cushion given the financially challenging environment it is operating in and taking into consideration the government policy on reserves.

2023/24 has seen a recovery in the trading of NGS' wholly owned subsidiary.

40. NGS has a wholly owned subsidiary, National Galleries of Scotland Trading Company Limited (NGS Trading) which promotes and develops NGS' commercial activities such as catering services, retail, publishing books and developing intellectual property. NGS Trading donates its taxable annual profits available for distribution to NGS, in accordance with the Government's Gift Aid legislation, and the company's financial results are consolidated into the NGS Annual Report and Financial Statements.

41. During 2023/24 NGS Trading has seen a significant recovery from the pandemic with visitor numbers returning close to the levels prior to the pandemic. For 2023/24 NGS Trading achieved a trading surplus of £0.205 million (2022/23: surplus of £0.111 million) which highlights its progress in recovering from the impacts of the pandemic.

42. The trading activities depend on the continued co-operation of NGS. NGS Trustees provided assurances that they will continue to provide financial support to NGS Trading and will not seek the repayment of the intra-company loan unless NGS Trading has sufficient funds to meet all its liabilities.

43. As a result of the improved position of NGS Trading its directors agreed to repay NGS £0.200 million of the £1.400 million inter-company loan in March 2024. The balance outstanding now stands at £1.000 million.

There are well-established budget monitoring and reporting processes in place.

44. NGS continues to have strong financial management processes in place which are sufficiently robust to manage financial activity and capture and address any challenges to the achievement of its financial targets. This is supported by an experienced finance team.

45. The Audit and Risk Committee (ARC) and Board regularly review progress against budget throughout the year, with financial reports included on the agenda of each meeting of the ARC. The budget updates provide a good level of information on the reasons for variances, where savings have been made and the challenges facing NGS for the rest of the year. The information is provided at timely intervals throughout the year which enables scrutiny from Trustees. Additionally, the level of reserves held by the charity are subject to regular review by Trustees.

46. We concluded that NGS has effective budgetary and financial management processes in place that allow Trustees to carry out effective scrutiny of its finances.

The new Scottish National Gallery opened in September 2023.

47. The Scottish National Gallery project aims were to transform the current Scottish National Gallery to create a new suite of exhibition spaces to house the collection of Scottish art to raise its profile for visitors from around the world. The vision for the project has been driven by NGS's ambition to ensure that the

widest number of people can enjoy the artworks on offer. This a fundamental aspect of NGS's Strategic Plan.

48. As reported in prior years, the SNG project has faced a number of challenges resulting in delays to the completion of the project. The original timeline for construction completion was May 2020. The SNG site was officially handed back to NGS in July 2023 and it was opened to the public in September 2023.

49. NGS has already experienced the benefits of the new Gallery. The opening of the new SNG together with the run of the Grayson Perry exhibition has seen a record number of people visit the National Gallery in 2023/24. There were over 1.940 million visits to the gallery resulting in a record-breaking year for exhibition numbers, outperforming all pre-Covid-19 years.

50. There has been appropriate oversight and governance of the project. There was a steering group responsible for the project with this group providing regular updates to the Major Capital Programme Committee. These updates included a project specific strategic risk register along with expenditure and timetable updates. Trustees were also provided with information and ongoing assessments of the contractor's performance from NGS's external specialist partner. There have also been regular updates presented to the Board of Trustees and Audit and Risk Committee on the progress of the build.

51. The total estimated cost incurred in respect of the SNG project was £38 million. The project was funded by capital grants from the Scottish Government (£15 million), grants and donations (£23 million) from the National Heritage Lottery Fund and other external funders including the National Galleries of Scotland Foundation.

52. As with all major capital projects, particularly those where challenges have been encountered, a post-project evaluation should be undertaken. This should be completed within a reasonable timescale. The evaluation should consider performance against cost, time and quality targets which will help to assess if the expected wider benefits which originally justified the investment have been delivered. The review, and any lessons learned from this, can be used to inform NGS's future capital projects e.g. The Art Works (TAW). We are aware that NGS are progressing with a project evaluation that will be circulated to key project stakeholders. Additionally, management have confirmed that lessons learned from the SNG project have been discussed with the TAW project team.

NGS continues to engage with the SG over its funding commitment to The Art Works project.

53. The Art Works (TAW) is another major capital project in progress which will create a new, purpose-built facility to care for, research and share Scotland's art collection. Subject to funding, the project is planned for completion in 2026/27. The 2023/24 budget included £1.850 million for TAW. In 2023/24, the project progressed RIBA 4 with design work concluded in December 2023. Planning consent was received in November 2023, and the Full Business Case is now nearing completion with construction due to commence in October 2024. As at 31 March 2024 TAW had a capitalised project spend £8.376 million.

54. Whilst the NGS 2024/25 capital budget includes a committed £2.300 million from the SG for TAW, the multimillion-pound project has now reached a critical stage. Project delays will impact on the short-term operational costs to NGS. The uncertainty also creates issues for the medium and longer-term strategic planning of the organisation. NGS has statutory obligations to look after and develop the collection and it considers this project is the best way to achieve this. Government funding is critical to the project's delivery. NGS has been in communication with the SG throughout the project and it has sought assurances from the SG over its longer-term commitment to fund the project. Further delays to funding commitments will have wide ranging implications for NGS. There is now an urgent need for the SG to provide clarity on its commitment to support the delivery of the TAW project.

NGS has appropriate financial control arrangements in place.

55. We undertook a review of the design and implementation of systems of internal control relevant to our audit approach.

56. We found that the key controls within the main financial systems were designed and implemented appropriately. As such, we are satisfied that the risk of material misstatement to the Financial Statements is low.

Internal audit reported that NGS had adequate and effective risk management, control and governance arrangements in place during 2023/24. Proper arrangements are in place to promote and secure value for money.

57. NGS' internal audit function is carried out by Henderson Loggie. The internal audit service, in any organisation, is an important element of internal control. It provides Trustees and management with independent assurance on risk management, internal control and corporate governance processes as well as providing a deterrent effect to potential fraud.

58. We considered internal audit's annual report, presented to the September 2024 Audit and Risk Committee, as part of our review of the Governance Statement included within the 2023/24 Annual Report and Financial Statements. This disclosed internal audit's opinion that NGS had adequate and effective arrangements for risk management, control, and governance in place during 2023/24. The opinion also states that proper arrangements are in place to promote and secure value for money.

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

59. NGS' Board of Trustees is responsible for ensuring that appropriate standards of corporate governance and personal conduct are maintained in respect of Trustees and staff.

60. NGS management is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. The arrangements in place at NGS include:

- code of conduct policy

- fraud policy
- conflicts of interest policy
- whistleblowing policy
- system of internal controls in place which includes segregation of duties and multiple levels of authorisation & approval.

61. NGS continues to participate in the National Fraud Initiative (NFI), a counter-fraud exercise coordinated by Audit Scotland that uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. Overall, we have concluded that NGS has made good progress with the exercise with all matches being investigated and closed.

62. NGS has adequate arrangements are in place for the prevention and detection of fraud and other irregularities. In addition, our testing of expenditure and income during the audit did not highlight any issues with the regularity of NGS transactions, or any instances of business decisions being taken that did not appear to reflect value for money. We are not aware of any specific issues that we need to bring to your attention.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The Board of Trustees approved a balanced budget for the 2024/25 financial year.

Planning for the medium-term remains challenging given the uncertainties over future funding settlements and cost pressures.

The Board of Trustees approved a balanced budget for the 2024/25 financial year.

63. The Board of Trustees approved a balanced budget for the 2024/25 financial year in March 2024. NGS noted this was achieved against the backdrop of a challenging financial settlement from the Scottish Government (SG). The Galleries' Chair and Accountable Officer together with their counterparts at the other two collection bodies (National Library of Scotland and National Museums Scotland) engaged in several discussions with the SG in early 2024 around their 2024/25 financial settlement. They set out the risks associated with their funding and noted the specific staffing challenges that the collections face. However, during these discussions the SG confirmed there was no additional funding for the portfolio in 2024/25.

64. There is an overall resource budget of £24.990 million for 2024/25. Grant-in-Aid (GIA) accounts for £19.450 million (78%) of this. The GIA allocation has increased by 2% when compared to the 2023/24 re-forecast figure. The 2024/25 GIA figure also reflects a 5% efficiency reduction that has been applied by the SG across all public bodies as part of public sector reform. After taking into account the 2-year pay uplift, staff costs for 2024/25 (£18.000 million) have increased by 12% from the prior year re-forecast amount and account for 93% of the GIA funding. Staff costs continue to represent a significant challenge to NGS.

65. At the time of setting the budget, the figures did not include the costs of implementing the shorter 35-hour working week included within the overall agreement on pay. Given the nature of NGS's operations, there is a requirement for 24-hour security. It was identified that the move to a 35-hour week would result in significant additional costs to the organisation. Following the submission of a business case to SG, additional funding of up to £0.960 million annually has been confirmed. NGS is working with Union representatives to implement the shorter working week. The 1 October 2024 has been set as a provisional date for the introduction of this.

66. The budget includes a 16% increase in self-generated income when compared to the prior year. This is to be achieved through improvements to the Galleries Friends membership scheme with these changes expected to generate 2,000 additional memberships, almost back to pre-covid levels. Sponsorship income is also forecast to increase for 2024/25 through the confirmation of £0.900 million of funding from the Peoples Post Code Lottery.

67. The narrative that supports the budget presents a transparent view of NGS's financial position for the coming year. There is a good level of detail on the assumptions used to prepare the budget. These are reasonable and are based on the latest and best available information to management. Management also undertook sensitivity analysis as part of the budget setting. This focussed on income streams given the largely fixed nature of NGS's expenditure.

68. NGS has good financial management arrangements in place and has a history of operating within its budget. We are satisfied from a review of the 2024/25 budget, consideration of the actual position in 2023/24, and the assumption of continued provision of services set out in the FReM and Practice Note 10, that it is appropriate to prepare the Financial Statements on a going concern basis, and that no material uncertainty on going concern exists. Management have made appropriate disclosures relating to going concern in the Annual Report and Financial Statements.

Planning for the medium-term is challenging given the uncertainties over future funding settlements, public sector reform and cost pressures.

69. The SG published its [Medium-Term Financial Strategy](#) in May 2023. This placed an emphasis on public sector reform and pay sustainability. As noted in Audit Scotland's October 2023 report on [The Scottish Government's workforce challenges](#) *"The Scottish Government's approach to reform includes workforce as a key component, and its medium-term plans rely on slower workforce growth. An approach focused purely on controlling workforce numbers and pay costs will not address capacity issues and is unlikely to be sufficient to put public finances on an even keel. Reform must deliver services differently, supporting the Scottish Government workforce to manage this change, rather than simply doing more with less. Historically, there has been an implementation gap between public sector reform ambitions and the ability of the Scottish Government to deliver change on the ground. Addressing this implementation gap is vital to deliver affordable public services."*

70. Whilst the SG has a reform agenda, with the NGS participating in a number of Culture cluster group sessions over the past year, the SG has made little progress in reform within the sector. This lack of drive and focus nationally is an impediment to the Gallery's ability to plan for the medium-term efficiently and effectively.

71. Staff costs comprise the greater part of the NGS's annual resource grant expenditure (88% in 2023/24). This should dictate that NGS adopts a strategic approach to workforce and succession planning and that this should be closely related to its Strategy and budgets. Management confirmed there is a regular and rolling workforce planning review in place that is aligned to NGS's strategic priorities. Given the percentage of the overall Gallery budget that staff costs

comprise, in the absence of clarity on the [announced](#) additional funding (circa £25 million for the culture sector for 2025/26) or effective reform, the achievement of budget savings in the short-term will primarily rely on staffing efficiencies. Over the past three years, 43 employees have left NGS under its voluntary severance scheme (VSS). Whilst there is a cost associated with running a VSS, this can generate significant savings, but this must be balanced against the loss of experienced staff and the overall impact on the organisation's strategic priorities.

72. The financial pressures facing the SG, and the wider public sector, have intensified as tougher economic conditions such as increased pay awards and high inflation continue. Despite this, planning for the medium-term term, while difficult, is necessary for NGS. The development of these forecasts brings into focus the identified challenges together with opportunities to address them. Set in this context, as part of the 2024/25 budget paper, management outlined high level forecasts to 2028/29. Whilst it is anticipated that revenue will increase following the reopening of the Scottish Galleries, the forecasts present a challenging financial position over the medium-term. To that end, management have committed to developing a more detailed medium-term financial strategy during 2024/25 that will include consideration of NGS's core activities that require public funding, and options on how to drive better financial sustainability including the use of reserves. This will need to be set in the context of the wider SG reform agenda and as further information is made available, NGS will have to assess the impact of any announcements on its financial planning.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

NGS has a clear vision and strategy.

Effective governance and decision-making arrangements were in place during 2023/24 with business in an open and transparent manner.

NGS has a clear vision and strategy.

73. The National Heritage Act (Scotland) 1985 confirms that NGS' Board of Trustees has responsibility to:

- care for, preserve and add to the objects in their collections.
- secure that the objects are exhibited to 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 enjoyment and understanding of the Fine Arts both by means of the Board's collections and by such other means as they consider appropriate.

74. To support the Board in achieving these responsibilities, NGS has established a clear strategic vision as set out in its Strategic Plan 2022-27. The specific strategic aims over this period are:

- **Increased participation:**
 - We want to welcome and include everyone, reaching more people and more diverse groups.
- We want to open up conversations with our audiences to discover new ways to experience and explore the collection together.
- **Greater impact:**
 - We want to make sure our work is both world-class and relevant.

- We will make an active contribution to some of the key challenges facing society, including improving health and wellbeing, combatting inequality, and addressing the climate and ecological emergency.
- **Investment in our future:**
 - We will invest to make the most of our people and their talents, knowledge and skills, our collection, and buildings. We will take a long-term view about investing in all these areas, making sure everyone has a role to play.
 - We will create more secure and varied sources of income so that we become more self-sufficient, financially.

75. The plan also identifies six strategic priorities to achieve these aims being:

- Our Public Offer
- Equalities, Diversity & Inclusion
- Environmental Response
- Health & Wellbeing
- Contributing to Recovery: Continuity & Change
- Income Generation & Managing the Cost Base

76. In addition to setting out the strategic aims for NGS, the plan provides a commitment to the Scottish Government's National Performance Framework, setting out how NGS will contribute to this.

77. The Strategic Plan acknowledges several risks to the successful achievement of the strategic aims and priorities, with the continued recovery from the pandemic, and its impact on visitor numbers and income, together with inflation highlighted. These are key areas of focus within NGS' financial planning evidencing a joined-up approach that ensures NGS' resource is prioritised to meet its strategic aims.

78. The delivery of the Strategic Plan is monitored through a suite of key performance indicators (KPIs).

79. To help progress the priorities of the strategic plan, each year a business plan is produced, tying together the key aims, priorities, KPIs and related risks. The year-end report on the 2023/24 business plan was considered by the Audit and Risk Committee in May 2024. This indicated a good level of progress ([see paragraphs 90 to 94](#) for further details). Work is ongoing to develop a new Strategic Plan for 2025-30, which is due to be produced in the coming months. This will build upon the current Strategic Plan, offering an update on NGS' key priorities and goals.

Effective governance and decision-making arrangements were in place during 2023/24.

80. A Framework Document is in place between the Scottish Government and NGS. It sets out the broad framework within which NGS will operate and defines key roles and responsibilities which underpin the relationship between it and the Scottish Government.

81. The Board of Trustees is responsible for the overall governance of the NGS. It is responsible for ensuring the governance framework is operating as intended, together with the monitoring of the adequacy and effectiveness of these arrangements. NGS' governance arrangements have been set out in the Governance Statement in its Annual Report and Financial Statements. We are of the view that governance arrangements remained effective in 2023/24.

82. The Board provides leadership, direction, support, and guidance to ensure NGS 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 several committees, including an Audit and Risk Committee (ARC).

83. 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.

84. Responsibility for delivering the Strategic Plan and the operational management of NGS is delegated to the Director-General, supported by their leadership team. The Director-General is also Accountable Officer for the use of public resources. Anne Lyden assumed the role of Director-General in January 2024 following departure of Sir John Leighton.

NGS conducts its business in an open and transparent manner.

85. There is an increasing focus on how public money is used and what is achieved. Transparency means that the public have access to understandable, relevant, and timely information about how NGS is taking decisions and how it is using resources such as money, people, and assets.

86. There is evidence from several sources which demonstrate NGS' commitment to openness and transparency:

- NGS makes its Annual Report and Financial Statements available on its website. These include a Trustees Annual Report which adequately explains NGS' financial performance and use of resources for the year.
- The NGS website provides the public with access to a wide range of corporate information including details of its strategy, performance information, and equality and diversity reporting.
- On its website, it publishes, in an accessible and transparent way, an annual review that evidences its use of resource and key activities over the past year.

5. Use of resources to improve outcomes

NGS need to make best use of its resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

NGS has arrangements in place to secure Best Value.

A performance management framework is in place. Performance levels are strong across most key areas.

NGS has arrangements in place to secure Best Value.

87. [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.

88. The duty of Best Value in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance,
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.

89. We have not undertaken any specific Best Value work in 2023/24. However, based on our findings in this report, we consider that NGS has arrangements in place to secure Best Value. This is evidenced through:

- a clear Strategic Plan and performance reporting, including its framework for continuous improvement.
- established governance and decision-making framework.
- recognition that strategic priorities must be delivered within the financial and workforce resources available.

**A performance management framework is in place.
Performance levels are strong across most key areas.**

90. NGS's performance is monitored by the Board of Trustees and the Audit and Risk Committee (ARC) against several performance targets contained in its annual business plan which support the delivery of the priorities in its Strategic Plan 2022-27.

91. At each meeting of the Board, an update on performance against the key performance indicators (KPIs) is presented along with detailed information for each of these. Responsibility for the detailed review and scrutiny of performance lies with the ARC. Performance is reported using a traffic light system covering NGS's key indicators. Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

92. The KPIs are reported within the 2023/24 Annual Report and Financial Statements. [Exhibit 5](#) shows that performance exceeded the target for most of the indicators and there was a general upward trend in improvement when compared to the prior year.

93. NGS has a clear performance management framework in place aligned to its Strategic Plan. Its performance is recovering following the pandemic and is subject to regular review by Trustees.

94. Our view is supported by internal audit who undertook a review of performance management arrangements within NGS in 2023/24. Generally, they found the arrangements to be satisfactory. Where areas for improvement were noted, they will be picked up as part of the Strategic Plan 2025-30 development.

Exhibit 5

Board key performance indicators

Indicator	2022/23 Results	2023/24 Target	2023/24 Results
Number of actual visits to all gallery sites	● 1,958,515	2,186,121	● 2,550,423
Website sessions	● 2,576,771	2,662,663	● 3,264,616
Digitisation of the collection	11,066	100% by 2037	● 8,817 or 80%
Visitor satisfaction	● 90%	90%	● 89%
Visitor net promoter score	● 65.6%	74%	● 61%
Engagement via social media (no longer a KPI)	3.3% (no target)	5% growth across Instagram, Facebook, and Twitter/ X.	● 6% average across the platforms.
Percentage reduction on carbon emissions	● 65.10%	60%	● 63.69%
Percentage of storage/gallery spaces providing minimum standard environmental conditions for collections	52%	100% (by 2025)	● 67%
Staff turnover	No comparator	20%	● 25%
Staff retention	No comparator	80%	● 87%
Income per visit	£2.45 (no target)	£2.45	● £2.48
Trading company profit/loss	● £111,000	£81,000	● £207,795
Membership income	● £323,763	£400,000	● £419,942
Donations per visit	● 6p	6p	● 6p

Source: NGS Annual Report and Financial Statements 2023/24

Appendix 1. Action plan 2023/24

2023/24 and prior year follow-up recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Reserves accounting</p> <p>There were issues identified relating to the accounting entries of NGS's reserves.</p>	<p>Management should undertake a review of reserves prior to the preparation of the 2024/25 Annual Report and Financial Statements. Additionally, consideration should be given to procuring fixed asset software to support the accuracy of the record keeping.</p> <p>See exhibit 2</p>	<p>Management action</p> <p>A review of reserves will be undertaken prior to the preparation of the 2024/25 Annual Report and Financial Statements. This will build on the improvements made during the preparation of the 2023/24 Annual Report and Financial Statements.</p> <p>We will consider the cost/benefit of procuring fixed asset software.</p> <p>Timescale</p> <p>31 March 2025.</p>
<p>2. Accounting for donated income</p> <p>Our testing identified balances relating to donated income totalling £0.122 million. These donations had no restrictions or conditions placed on them by the grantor. NGS accounted for these items a deferred income.</p> <p>The Charities SORP 2019 makes it clear that a donation or grant received without any conditions should not be deferred even if the income is received in advance of the expected expenditure on the activity funded by grantor.</p>	<p>Management should undertake a review of the items that make up the deferred income balance to ensure compliance with the SORP.</p> <p>See exhibit 2</p>	<p>Management action</p> <p>We will undertake a review of the deferred income account to ensure compliance with the SORP.</p> <p>Timescale</p> <p>31 March 2025.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. SNG Project</p> <p>Further delays were experienced with the project in 2021/22. The forecast budget and timeline for the completion of the project was reviewed and a revised project budget was approved by the Board of Trustees in March 2022. The current forecast costs for the completion of the SNG project per the revised budget is £37.500 million, with the opening of the full site to the public being planned for Summer 2023.</p>	<p>Management and the Board should continue to closely monitor the SNG project to ensure that additional funding is secured, and the project is completed within the revised budget and timescale.</p>	<p>Complete</p> <p>The SNG site was officially handed back to NGS in July 2023. It opened to the public of late Summer 2023.</p> <p>Regular project updates were provided to the Board, Audit and Risk Committee and Major Capital Programme Committee in respect of the SNG project. See paragraphs 47 to 52.</p> <p>We reviewed the accounting treatment of the SNG revaluation in 2023/24. See exhibit 2.</p>

National Galleries of Scotland

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