

National Museums Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

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

October 2024

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Key messages

2023/24 Annual Report and Accounts

- 1 An unqualified independent auditor's report has been issued for the 2023/24 Annual Report and Accounts.
- 2 Expenditure and income in the financial statements were incurred or applied in accordance with legislation and guidance issued by Scottish Ministers.
- 3 The Trustees' Annual Report, Remuneration and Staff Report and Governance Statement are consistent with the accounts and properly prepared in accordance with applicable guidance.

Financial management

- 4 National Museums Scotland (NMS) operated within its budget in 2023/24.
- 5 There are well-established budget monitoring and reporting processes in place and NMS has appropriate financial control arrangements.

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. Work is ongoing to develop a workforce plan that aligns to the organisations strategic and financial plans.

Vision, leadership and governance

- 8 NMS 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 NMS has arrangements in place to secure Best Value, including an effective performance management framework.

Introduction

1. I, Andrew Kerr (Senior Audit Manager), have been appointed by the Auditor General for Scotland as auditor of National Museums Scotland (NMS) 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 Trustees, senior management, and other 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 NMS. The scope of the audit was set out in an Annual Audit Plan presented to the 13 March 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from the audit of NMS's Annual Report and Accounts.
- 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 National Museums Scotland 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. 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 account's direction from the Scottish Ministers. NMS 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 NMS 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](#) setting out specific recommendations, 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 NMS, we invite them to communicate this to the appointed auditor for consideration prior to the Annual Report and Accounts 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 £34,650 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 NMS 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 Accounts

NMS are required to prepare an Annual Report and Accounts comprising financial statements and other related reports. 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 Accounts.

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, Remuneration and Staff Report and Governance Statement are consistent with the accounts and properly prepared in accordance with applicable guidance.

Key risks arising from the audit of National Museums Scotland Annual Report and Accounts were presented to the Audit and Risk Committee on 13 March 2024 in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Board.

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

12. The Board of Trustees approved the Annual Report and Accounts for National Museums Scotland and its group for the year ended 31 March 2024 on 2 October 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements 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, audited part of the Remuneration and Staff report and Governance Statement 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 Accounts were received in line with the agreed audit timetable.

14. The unaudited Annual Report and Accounts were received in line with our agreed audit timetable on 10 June 2024. The Annual Report and Accounts submitted for audit were of a high 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 £2.940 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 Accounts 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 gross group assets for the year ended 31 March 2024. We have used net assets as the basis for calculating materiality as a primary function of National Museums 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>	£2.940 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>	£1.910 million
<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>	£0.060 million

We have no significant findings to report on the Annual Report and Accounts.

17. 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 NMS's accounting practices.

18. 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.

19. We have no issues to report from the audit.

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

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

No misstatements were identified. However, a review of the revaluation reserve is required.

22. There were no identified misstatements within the financial statements.

23. However, improvements could be made to the accounting for asset revaluations. As part of our assessment of the 2023/24 revaluation, we identified that the revaluation reserve is accounted for by category, not individual asset as required by International Accounting Standards 16 - Property, Plant and Equipment (IAS 16). The net movement of the revaluation has been processed in the Statement of Financial Activity (SoFA) and we are unable to see the revaluation reserve increase and decrease per asset. Where future revaluations result in a loss on an individual asset, currently there is a risk this is offset against the revaluation reserve which is attributable to other assets instead of being accounted for as expenditure in year through the SoFA.

24. Based on our audit testing we are satisfied there is no material misstatement within the accounts in 2023/24 as the revaluation reserve was of a sufficient balance to cover the in-year revaluation decrease. The revaluation reserve should be split by asset so gains and losses can be appropriately recognised in the SoFA in line IAS 16.

Recommendation 1

The revaluation reserve should be split by individual asset to ensure accurate accounting records and compliance with applicable standards.

Our audit work responded to the significant risk of material misstatement we identified in the Annual Report and Accounts.

25. We have obtained audit assurances over the identified significant risk of material misstatement in the Annual Report and Accounts. [Exhibit 2](#) sets out the significant risk 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 this risk and the conclusions from the work completed.

Exhibit 2

Significant risk of material misstatement in the Annual Report and Accounts

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>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Revaluation of land and buildings</p> <p>NMS held land and buildings, including leasehold improvements, with a net book value of around £172 million as at 31 March 2023.</p> <p>In line with the government financial reporting manual (FReM) these assets are revalued on a five-year rolling basis. A full revaluation was undertaken in 2018/19 with indexation applied in the following years. A full revaluation of these assets is due in 2023/24.</p> <p>Risk: There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p>	<p>Review the information provided to the valuer to assess for completeness.</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 ledger and the asset register.</p> <p>Critically assess the adequacy of NMS' disclosures regarding the assumptions in relation to the valuation of other land and buildings.</p>	<p>Results: We did not identify any issues with the information provided to the valuer.</p> <p>Our review of the external valuer 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> <p>We found that appropriate disclosures have been made regarding the assumptions in relation to the valuation of land and buildings.</p> <p>Conclusion: No issues were identified with the assumptions applied to the revaluations.</p>

Source: Audit Scotland

The Trustees' Annual Report complies with applicable guidance.

26. 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).

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

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

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

29. The FReM requires NMS 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 Museums' 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.

30. We have no issues to report in relation to the information disclosed within the Remuneration and Staff Report in NMS's 2023/24 Annual Report and Accounts.

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

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

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

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 Museums Scotland (NMS) operated within its budget in 2023/24.

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

National Museums Scotland operated within its budget in 2023/24.

33. 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 its financial sustainability.

34. As a charitable Non-Departmental Public Body, NMS is primarily funded by the Scottish Government (SG) by way of Grant in Aid. For 2023/24, the single entity accounts for NMS show that it was due to receive £28.600 million from the SG. This comprised a resource grant of £27.600 million and capital of £1.000 million. In addition to the capital budget, £0.150 million was received for the National Fund for Acquisitions. NMS act as agent on behalf of SG. As such, neither the income nor expenditure is included in NMS's accounts.

35. NMS has reported an underspend of £0.005 million against its final resource and capital grant budgets for 2023/24. The financial performance against fiscal resources is shown in [exhibit 3](#).

Exhibit 3

Performance against fiscal resource in 2023/24

Performance	Final budget £'million	Outturn £'million	Variance (under)/over £'million
Resource	27.605	27.600	0.005
Capital	1.150	1.150	0
Total	28.755	28.750	0.005

Source: National Museums Scotland Audited 2023/24 Annual Report and Accounts

36. NMS also recognise other income of £7.913 million in the single entity Statement of Financial Activities (SofA). This consists of donations, income from charitable activities and income from other trading activities. This position is improved when NMS's subsidiary, National Museums Scotland Enterprises Ltd (NMSE), is consolidated, with the group SoFA benefiting from £4.395 million of trading income from NMSE.

37. A large element of NMS's expenditure (52%) consists of staff costs, which for the charity amounted to £20.526 million in 2023/24. Whilst NMS continues to recover from the pandemic, as evidenced by its improved income position, 2023/24 continued to be a challenging financial environment for it to operate in. The ongoing war in Ukraine has contributed to the rising cost of inflation and the implementation of pay settlements contributed to a significant increase in its staff costs (£1.506 million). NMS was able to offset some of the inflationary increases in its utility costs through a reduction in its carbon footprint.

38. Overall, NMS remains in satisfactory financial health. The charity balance sheet shows what is owned and owed by NMS as at 31 March 2024. This currently shows net assets of £195.917 million, a decrease of £5.189 million on the prior year with £2.883 million attributable to a loss on revaluation of assets tangible assets following revaluation.

39. NMS continued to comply with its reserve strategy of maintaining at least £0.250 million available for use in its unrestricted Board Reserve, with £0.805 million being held as at 31 March 2024. NMS considers this to be a reasonable cushion given the financially challenging environment it is operating in.

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

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

41. The Executive Team, Finance Committee and Board regularly review progress against budget throughout the year, with financial reports included on the agenda of each meeting of the Finance Committee and Board. The budget updates provide a good level of information on the reasons for variances, where savings have been made and the challenges facing NMS 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 review by Trustees.

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

43. Our view is supported by internal audit who undertook a review of NMS budgetary control and financial reporting arrangements in 2023/24. They found many areas of strength and concluded that the overall arrangements were good.

2023/24 has seen the NMS's wholly owned subsidiary continued recovery from the pandemic.

44. NMS has a wholly owned subsidiary, National Museums Scotland Enterprises Ltd (NMSE) which promotes and develops NMS's commercial activities such as catering services, retail, publishing books and developing intellectual property. NMSE donates its taxable annual profits available for distribution to NMS, in accordance with the Government's Gift Aid legislation, and the company's financial results are consolidated into the NMS Annual Report and Accounts.

45. For 2023/24 NMSE made a profit of £0.726 million (2022/23: profit of £0.787 million) highlighting its progress in recovering from the impacts of the pandemic. NMS receives a distribution of profits from NMSE one year in arrears. NMSE is due to make an unrestricted contribution of £0.726 million in 2024/25 (2023/24: £0.588 million). It is budgeted that the contribution made by NMSE will increase by £0.050 million each year.

NMS has appropriate financial control arrangements in place.

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

47. As part of our interim testing one minor point of improvement was noted relating to the authorisation limits for purchase invoices. Management have agreed to review the limits regularly to ensure they keep pace with inflation and other price increases.

48. Additionally, during our testing of expenditure transactions we identified instances where staff accommodation claims on UK and international travel exceeded the thresholds set by NMS's Travel and Subsistence Policy. In line with the policy, there was appropriate review and approval of the claims by the relevant line manager / budget holder. We recognise that such trips are an important aspect of the charities operations and that inflationary pressures mean that the cost of accommodation has increased. However, to remain compliant with its own policy, NMS should review the thresholds.

49. Overall, we found that the key controls within NMS main financial systems were designed and implemented appropriately. As such, we are satisfied that the risk of material misstatement to its Annual Accounts is low.

Internal audit reported that NMS 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.

50. NMS's 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.

51. We considered internal audit's Annual Report, presented to the June 2024 Audit and Risk Committee, as part of our review of the Governance Statement included within the 2023/24 Annual Report and Accounts. This disclosed internal audit's opinion that NMS 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.

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

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

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

54. NMS continues to participate in the National Fraud Initiative (NFI), a counter-fraud exercise co-ordinated 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. NMS have made good progress with the 2022/23 exercise with all matches being investigated and closed.

55. We have concluded that 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 NMS 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.

NMS has adequate arrangements in place to manage cyber security risks.

56. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place to help mitigate these. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation.

57. In 2023/24 NMS achieved Cyber Essentials Plus certification. This provides assurance that the arrangements within NMS to manage cyber security risks are adequate. The intention is for the certification to be renewed annually.

58. A report by internal audit on business continuity, reported to the Audit and Risk Committee in March 2024, gave a satisfactory level of assurance meaning the system meets controls objectives with some weaknesses present. Internal audit has highlighted the absence of a routine cyber-attack testing plan. Whilst NMS has a cyber incident plan in place, this is not routinely tested. NMS recognise that it would increase its resilience if this plan was subject to regular testing, and arrangements are being made to do this.

59. Given the nature and sophistication of cyber-attacks no organisation can be fully protected against these, but NMS has adequate arrangements in place to manage cyber security risks.

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 2024/25 financial year.

Planning for the medium-term is challenging given the uncertainties over future funding settlements, public sector reform and cost pressures. Work is ongoing to develop a workforce plan that aligns to the organisations strategic and financial plans.

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

60. The Board of Trustees approved a balanced budget for the 2024/25 financial year in March 2024. The Board noted this was achieved against the backdrop of a challenging financial settlement from the Scottish Government (SG). The Director of Finance & Resources together with their counterparts at the other two collection bodies (National Galleries of Scotland and National Libraries of Scotland) engaged in several discussions with the SG in early 2024 around the challenging 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.

61. There is an overall resource budget of £30.648 million for 2024/25. Grant-in-Aid (GIA) accounts for £27.125 million (88%) of this. The GIA allocation has decreased 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 (£21.235 million) have increased by 3% from the prior year re-forecast amount and account for 69% of the GIA funding. Staff costs continue to represent a significant challenge to NMS.

62. 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 NMS'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 £0.560 million annually has been confirmed. NMS is working with Union representatives to

implement the shorter working week. The 1 August 2024 has been set as a provisional date for the introduction of this.

63. The budget includes a 6% decrease in self-generated income when compared to the prior year. Only income for known projects has been included in the projections of research grant income causing an overall decrease of £0.413 million in philanthropic income. A prudent approach has been taken to forecasting income from memberships, forecasting an increase of £0.038 million. There is hope this will increase throughout the year to help bring philanthropic income back to 23/24 levels.

64. The narrative accompanying the budget presents a transparent view of NMS'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 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 NMS expenditure.

65. NMS 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. Work is ongoing to develop a workforce plan that aligns to the organisations strategic and financial plans.

66. 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."*

67. Whilst the SG has a reform agenda, with NMS 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 Museum's ability to plan for the medium-term efficiently and effectively.

68. Staff costs comprise the greater part of the NMS's annual expenditure (52% of total expenditure in 2023/24). This should dictate that NMS adopts a strategic approach to workforce and succession planning and that this should be closely related to its strategy and budgets. Given the percentage of the overall Museum 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. NMS are exploring the option of a voluntary severance scheme (VSS) in 2024/25. 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, particularly if they are working in specialist areas within NMS, and the overall impact on the organisation's strategic priorities.

69. In our 2022/23 Annual Audit Report we noted that NMS was developing a workforce plan as part of its operational plan. Work on strategic workforce planning has been paused to allow for the implementation of the 35-hour working week and the conclusion of the VSS. The workforce plan has a revised deadline of March 2025 within the 2024/25 operational plan. Workforce plans should set out the organisation's workforce needs and support the achievement of the organisation's strategic aims and be linked to NMS's Financial Strategy 2024-29. We will consider the progress with the workforce plan as part of our 2024/25 audit.

70. 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 NMS. 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 forecasts to 2026/27. The forecasts present a challenging financial position over the short-term, with particular risks around staff and estates costs.

71. Alongside the 2024/25 budget, NMS has developed a draft Finance Strategy 2024-29. The draft was presented to the Finance Committee in May 2024. Further refinement of the strategy will take place during 2024 and a final version will be presented to the Board later in the year.

72. The financial strategy includes scenarios and different levels of options available dependent on the financial impact required. The production of this should help inform discussions including any future required actions to ensure financial sustainability over the medium-term.

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

NMS has a clear vision and strategy.

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

NMS has a clear vision and strategy.

73. The National Heritage Act (Scotland) 1985 confirms that NMS's Board of Trustees have 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.

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

- Our audiences will be more diverse, and more people will connect with our collections and their stories.
- We will be recognised as the world leader and preferred national partner for the interpretation of and engagement with Scotland's material heritage.

- We will be well advanced on the path to a carbon neutral footprint and a respected resource for understanding climate and biodiversity challenges.
- The unique potential of our collections, expertise and programmes will be shared and valued internationally.
- We will be financially secure, supported by diverse income streams and confident in continuing to invest in our people, places, and collection.

75. The plan also identifies a number of risks to the successful achievement of these priorities, with Grant in Aid and capital funding highlighted. These are key areas of focus within NMS's financial planning evidencing a joined-up approach that ensures NMS's resource is prioritised to meet its strategic aims.

76. The delivery of the Strategic Plan will be monitored through a suite of key performance indicators (KPIs) (analysed further in [paragraphs 89 to 92](#)).

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

78. To help progress the priorities of the Strategic Plan, each year an operational plan is established that identifies key actions linked to each of the five priority areas. The 2023/24 year-end operational plan was considered by the Board in June 2024 and indicates a good level of progress with the action points. For those targets that were missed, clear explanations were provided by management and these actions are being considered for inclusion in the 2024/25 operational plan.

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

79. A Framework Document is in place between the Scottish Government and NMS. It sets out the broad framework within which NMS will operate and defines key roles and responsibilities which underpin the relationship between it and the Scottish Government. The Framework Document was last reviewed in 2018. The document notes that it should be subject to review and updated at least every 2-3 years. This is currently under review between NMS and SG and should be resolved by 2024/25.

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

81. There are thirteen Trustees plus a Chair on the Board. All members are appointed by the Scottish Ministers. The Scottish Government announced in February 2024 that Ian Russell CBE had been reappointed as Chair of the Board. His new term will run from August 2024 to July 2028.

82. The Board provides 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 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.

NMS conducts its business in an open and transparent manner.

84. 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 NMS is taking decisions and how it is using resources such as money, people, and assets.

85. There is evidence from several sources which demonstrate NMS's commitment to openness and transparency:

- NMS makes its Annual Report and Accounts available on its website. These include a Trustees Annual Report which adequately explains NMS's financial performance and use of resources for the year.
- The NMS 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

NMS 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

NMS has arrangements in place to secure Best Value.

There is an effective performance management framework in place. Performance levels improved during 2023/24.

NMS has arrangements in place to secure Best Value.

86. [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.

87. 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.

88. We have not undertaken any specific Best Value work in 2023/24. However, based on our findings in this report, we consider that NMS 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 arrangements.
- recognition that strategic priorities must be delivered within the financial resources available.

There is an effective performance management framework in place. Performance levels improved during 2023/24.

89. NMS's performance is monitored by the Board against several performance targets which support the delivery of the priorities in its Strategic Plan 2022-27. The responsibility for the detailed review and scrutiny of operational and financial performance lies with the Board which meets quarterly.

90. At each meeting of the Board, the Director presents a report to the Trustees. Included within this report are the key performance indicators (KPIs) along with detailed information for each these.

91. NMS improved on its 2022/23 performance and exceeded its planned targets for 2023/24 performance almost all recorded areas, [exhibit 4](#). These KPIs are transparently reported within the Annual Report and Accounts.

92. NMS has a clear performance management framework in place aligned to its Strategic Plan. Its performance is strong and subject to regular review by Trustees.

Exhibit 4

Strategic Plan 2022-27 key performance indicators

Indicator	2022/23	2023/24 Target	2023/24 Results
Total number of on-site visitors	3 million	3.10 million	● 3.13 million
Online audiences	3.2 million	2.87 million	● 3.69 million
Total learning participation	206 thousand	250 thousand	● 270 thousand
Visitor satisfaction	85%	86%	● 85%
Accumulated total number of collections records online	795 thousand	810 thousand	● 816 thousand
% of collections storage meeting appropriate standards	N/A*	65%	● 74%
Organisational carbon emissions	1,545	N/A (target set for 2024/25)	1,736
Total value of revenue income	£5.3 million	£3.48 million	● £4.08 million
Total value of capital income	Nil	N/A	£0.295 million

*Paused during the pandemic and due to other competing staffing priorities not carried out in 2022/23.

Source: NMS Annual Report and Accounts 2023/24

Appendix 1. Action plan 2023/24

2023/24 recommendation

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Revaluation reserve</p> <p>The revaluation reserve is accounted for by category, not individual asset as required by International Accounting Standards 16 - Property, Plant and Equipment (IAS 16).</p> <p>Risk: Future loss on revaluation of an asset is not accounted for as expenditure in year through the SoFA resulting in a material misstatement.</p>	<p>The revaluation reserve should be split by individual asset to ensure accurate accounting records and compliance with applicable standards.</p> <p>Paragraphs 23 to 24</p>	<p>Agreed</p> <p>NMS Finance Team will prepare and maintain an analysis of the reserve split by asset. The analysis will be in a form discussed and agreed with Audit Scotland.</p> <p>Responsible officer:</p> <p>Head of Finance / Finance Manager</p> <p>Agreed date:</p> <p>31 March 2025</p>

National Museums Scotland

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