

National Museums Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

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Contents

Key messages	3
Introduction	4
1. Audit of 2022/23 Annual Report and Accounts	6
2. Financial management	12
3. Financial sustainability	17
4. Vision, leadership and governance	20
5. Use of resources to improve outcomes	23
Appendix 1. Action plan 2022/23	26

Key messages

2022/23 Annual Report and Accounts

- 1 An unqualified independent auditor's report has been issued for the 2022/23 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 2022/23.
- 5 There are well-established budget monitoring and reporting processes in place and NMS has appropriate financial control arrangements.
- 6 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

Financial sustainability

- 7 The 2023/24 budget reflects the continued challenging financial environment in which NMS is operating in. Ongoing engagement with the Scottish Government will be required to address known financial pressures.
- 8 Planning for the medium-term is difficult given the uncertainties over future funding settlements and cost pressures. Work is ongoing to develop a workforce plan that aligns to the organisations strategic and financial plans.

Vision, leadership and governance

- 9 NMS has a clear vision and strategy.
- 10 Effective governance and decision-making arrangements were in place during 2022/23 with business conducted in an open and transparent manner.

Use of resources to improve outcomes

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

Introduction

1. This report summarises the findings from the 2022/23 annual audit of National Museums Scotland (NMS). The scope of the audit was set out in an Annual Audit Plan presented to the 14 March 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from the audit of National Museums Scotland 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.

2. 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

3. National Museums Scotland 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.

4. 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.

5. 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.

Communication of fraud or suspected fraud

6. 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

7. 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 2022/23 audit fee of £32,680 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We add value to National Museums Scotland 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.

9. The audit team would like to thank NMS staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

1. Audit of 2022/23 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 2022/23 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 14 March 2023 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 2022/23 Annual Report and Accounts

10. The Board of Trustees approved the Annual Report and Accounts for National Museums Scotland and its group for the year ended 31 March 2023 on 29 November 2023. 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.

11. 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

12. The unaudited Annual Report and Accounts were received in line with our agreed audit timetable on 2 June 2023. 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 £3 million

13. 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.

14. 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 2023. 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>	£3.000 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>	£1.960 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

15. 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.

16. 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.

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

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

19. 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

20. It is our responsibility to request that all misstatements, other than those below our reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance.

21. There were no identified misstatements within the financial statements above our reporting threshold. In addition, we have no unadjusted misstatements to report.

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

22. 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 2022/23 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>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<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>

Source: Audit Scotland

23. In addition, we identified “other area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The area of specific audit focus was:

- Valuation of land and buildings:** We reviewed the RICS (Royal Institute of Chartered Surveyors) indexation factors and the application of these to land and buildings. The use of indexation resulted in a net increase of £13.710 million to land and buildings in 2022/23. Land and buildings have been properly accounted for in the financial year. For those valued on a Depreciated Replacement Cost basis, which would be impacted by changes in build costs during the year, we have performed an analysis of changes in the Build Costs Information Service index (‘BCIS’) and concluded that management’s assessment of the BCIS impact is reasonable.

24. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

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 areas and disclosures required. We found it to be well presented and informative.

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

28. As reported in 2021/22, a change to the Government Financial Reporting Manual (FReM) included the requirement for Charitable Non-Departmental Public Bodies (NDPB) to disclose the content required of the Remuneration and Staff Report. This can be either within a separate report contained within the accounts or by expanding the existing staff cost note disclosure. Following discussions with management, for 2022/23 a separate Remuneration and Staff Report has been disclosed in the Annual Report and Accounts. This includes details of:

- NMS 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 2023
- 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.

29. We have no issues to report in relation to the information disclosed within the Remuneration and Staff Report in NMS's 2022/23 Annual Report and Accounts.

The Governance Statement provides an appropriate level of disclosure on the Museums' governance arrangements during 2022/23

30. 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.

31. 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.

Good progress was made on prior year recommendations

32. National Museums Scotland has appropriately actioned both the audit recommendations identified by the previous external audit team. Details are set out in [appendix 1](#).

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 2022/23.

There are well-established budget monitoring and reporting processes in place and NMS 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 Museums Scotland operated within its budget in 2022/23

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 2022/23, the single entity accounts for NMS show that it was due to receive £28.649 million from the SG. This comprised a resource grant of £24.249 million and capital of £4.400 million.

35. NMS has reported an underspend of £0.737 million against its final resource and capital grant budgets for 2022/23. The resource budget was revised as part of the SG spring 2023 budget revision to include an additional £0.160 million of funding. However, this was not required by NMS because of budget movements that arose after the closure of the SG budget revision period. Changes to capital funding allocations were agreed after the issue of the updated offer letter following the closure of the SG budget revision period. The changes were as a result of delays in the planned capital expenditure at the National Museum of Flight which resulted in the final agreed capital expenditure being £3.825 million for 2022/23. The financial performance against fiscal resources is shown in [exhibit 3](#).

36. A year-end financial report was presented to the Board of Trustees in June 2023. This reported an operational deficit of £0.052 million for NMS and an operational surplus of £0.732 million for the group. This is a significant performance improvement on the budgeted deficits of £0.750 million and £0.350 million respectively.

Exhibit 3

Performance against fiscal resource in 2022/23

Performance	Final budget £'million	Outturn £'million	Variance (under)/over £'million
Resource	24.249	24.087	(0.162)
Capital	4.400	3.825	(0.575)
Total	28.649	27.912	(0.737)

Source: National Museums Scotland Audited 2022/23 Annual Report and Accounts

37. NMS also recognise other income of £9.264 million in the group Statement of Financial Activities. This consists of donations, income from charitable activities and income from other trading activities, including over £4 million from NMS's subsidiary, National Museums Scotland Enterprises Ltd. Total trading income in 2022/23 (£4.262 million) has now returned to pre-Covid levels (2018/19: £4.063 million).

38. A large element of NMS's resource expenditure (53%) consists of staff costs, which amounted to £20.265 million in 2022/23. Whilst NMS has seen a recovery from the pandemic, as evidenced by its improved income position, 2022/23 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 (£2.1 million). NMS was able to offset some of the inflationary increases in its utility costs through a reduction in its carbon footprint (discussed further at [paragraphs 93 to 98](#)).

39. Overall, NMS remains in satisfactory financial health. The group balance sheet shows what is owned and owed by NMS as at 31 March 2023. This currently shows net assets of £201.734 million, an increase of £12.659 million on the prior year. This increase is mainly attributable to increases to tangible assets following indexation (see [paragraph 23](#)). NMS also continued to comply with its reserve strategy of maintaining at least £0.250 million available for use in its unrestricted Board Reserve, with £0.859 million being held as at 31 March 2023. NMS considers this to be a reasonable cushion given the financially challenging environment it is operating in.

2022/23 has seen a recovery in the trading of NMS's wholly owned subsidiary

40. 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.

41. For 2022/23 NMSE made a profit of £0.787 million (2021/22: loss of £0.173 million) highlighting its progress in recovering from the impact of the pandemic. NMSE is due to make an unrestricted contribution of £0.588 million in 2023/24 (2022/23: £Nil). It is budgeted that the contribution made by NMSE will increase by £0.100m each year.

A donation was made to, and grants received from, the NMSCT in 2022/23

42. The National Museums Scotland Charitable Trust (NMSCT) was set up in 1987 to hold and manage funds to support the objectives of NMS. The trust is independent of NMS and allocates its funds after reviewing applications and business cases. We are content that, in 2022/23, NMS did not exercise control over NMSCT. In 2022/23, NMS donated £0.470 million (2021/22: £0.845 million) of unspent donations to the trust and received £0.045 million in grants (2021/22: £0.345 million) from it. These transactions have been correctly recorded in the accounts.

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

43. 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 financial targets. This is supported by an experienced finance team.

44. 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.

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

NMS has appropriate financial control arrangements in place

46. From our review of the design and implementation of systems of internal control relevant to our audit approach (including those relating to IT), we did not identify any internal control weaknesses. No weaknesses were identified which could affect NMS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the accounts.

47. 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 2022/23. Proper arrangements are in place to promote and secure value for money

48. 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.

49. We considered internal audit's Annual Report, presented to the August 2023 Audit and Risk Committee, as part of our review of the Governance Statement included within the 2022/23 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 2022/23. 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

50. 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.

51. 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.

52. 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.

53. 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

54. 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.

55. In 2022/23 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.

56. Cyber security is included within the NMS risk register. The risk register is reported to each meeting of the Audit and Risk Committee for review, amendment, and approval. The risk register is also reviewed by the executive team twice a year.

57. NMS internal audit function undertook a review of the organisations cyber and information security in 2021/22. The recommendations raised as part of that review have all been actioned. This included providing updates to the executive management team and Trustees on the cyber threat landscape and plans surrounding cyber security within NMS and the sector. The most recent report was considered by the executive management team in December 2022 and a summary of the report provided to the Audit and Risk Committee in August 2023.

58. 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 2023/24 budget reflects the continued challenging financial environment in which NMS is operating in. Ongoing engagement with the Scottish Government will be required to address known financial pressures.

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

The 2023/24 budget reflects the continued challenging financial environment in which NMS is operating in. Ongoing engagement with the Scottish Government will be required to address known financial pressures

59. The 2023/24 draft budget was considered by the Board of Trustees in March 2023 with a further update presented to the Board in June 2023. At the time of considering the budget, the Scottish Government (SG) was still to confirm if it would fund the 2023/24 pay award and as such, the budget was approved by the Board in principle, subject to confirmation from the SG that funding would be provided for the estimated £1 million 2023/24 pay award.

60. The budget sets out £30.804 million of total expenditure in 2023/24 and income is expected to be £29.130 million including £26.167 million Grant in Aid from the SG, an increase of £1.830 million from 2022/23 to fund increasing running costs. This funding will therefore remain NMS's main source (90%) of income. The £2.936 million of non-GIA revenue, includes income from self-generation, other grants, exhibitions, and trading. The budget also assumes that NMSE Ltd will contribute of £0.700 million in 2023/24.

61. The draft budget provides a good level of detail on the assumptions used. These appear reasonable and are based on the latest and best available information to management. The main risk to the budget relates to the pay award. Management have undertaken scenario planning to highlight the impact on the budget of changes from the proposed national position of the 4% award for 2023/24.

62. Following engagement with the SG a further £1.000 million of Grant in Aid has been received for 2023/24 which will help cover part of the pay award. This additional funding, together with efficiencies achieved so far in the year, means that a breakeven budget position is now projected for 2023/24. As a result of

this improved financial outlook the Board of Trustees approved the final 2023/24 budget in November 2023.

63. We recognise that NMS is operating in a challenging financial environment, with high inflation, the cost-of-living crisis and national pay awards all representing challenges to its budget. This is against the backdrop of relatively flat, real terms resource funding contributions to the cultural collections over the past several years, including NMS, as [reported](#) by the Scottish Parliament Information Centre (SPICe) in June 2023. The Museum's effective budget monitoring arrangements, together with its ongoing dialogue with the SG around the funding for the 2023/24 pay award, will be key in ensuring it delivers its strategic priorities within its allocated budget in 2023/24.

64. 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 2023/24 budget, correspondence with the Scottish Government, consideration of the actual position in 2022/23, 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 Accounts.

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

65. In May 2022, the Scottish Government (SG) published its first Resource Spending Review (RSR) since 2011. The RSR set out indicative spending plans for five years up to 2026/27. High-level spending plans were outlined for each government portfolio and included several assumptions and expectations such as the delivery of three per cent efficiency savings from all public bodies, and maintaining public sector pay costs at around 2022/23 levels. Since the publication, the financial pressures facing the SG, and the wider public sector, have intensified as tougher economic conditions such as higher inflation and increased interest rates have emerged in recent months. Added to this, the SG has intimated its intention for public sector reform, with further details on this expected later in 2023.

66. Set in this context, as part of the 2023/24 budget paper, management outlined forecasts for 2024/25 and 2025/26. The forecasts highlight a challenging financial position over the medium-term, in part due to the rising cost of inflation and the impact this has on utilities and maintenance costs. There also remains uncertainty over future pay settlements. As further information is made available from the SG, NMS will have to assess the impact of the RSR and reform announcements on its forecasts.

67. Planning for the medium to longer-term term is difficult, but necessary, to manage the levels of uncertainty and volatility facing NMS's budgets. The development of these forecasts will bring into focus the identified challenges together with opportunities to address them.

68. Staff costs comprise the greater part of NMS's annual expenditure (53% of total expenditure in 2022/23). This should dictate that NMS adopts a strategic approach to workforce and succession planning. This should be closely related to its Strategic Plan and budgets.

69. NMS has recognised the need for a longer-term strategic approach to its workforce. However, due to staffing changes, progress with its workforce plan was delayed in 2022/23. This will be progressed as part of the 2023/24 operational plan.

NMS's estate improvements, and climate change aspirations, relies on sufficient capital investment being received from the Scottish Government

70. Within its Strategic Plan 2022-27, NMS highlights the need for greater capital investment in its estate. NMS commissioned an independent building survey in 2021/22 that identified over £22 million of backlog maintenance that requires to be addressed over the next 10 years.

71. As part of its capital allocation in 2022/23 (£4.400 million), NMS received £0.750 million in funding from the Scottish Government for these backlog works (2021/22: £0.750 million). This has increased to £1 million for 2023/24. We recognise that the aspirations of NMS are reliant on national capital funding decisions and priorities. If the condition of its estate deteriorates to the extent that visitor experience is affected, this could have an impact on its financial sustainability.

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 2022/23.

NMS conducts its business in an open and transparent manner.

NMS has a clear vision and strategy

72. 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.

73. 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.

74. 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.

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

76. 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.

77. 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 2022/23 year-end operational plan was considered by the Board in June 2023 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 2023/24 operational plan.

Effective governance and decision-making arrangements were in place during 2022/23

78. 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 update at least every 2-3 years. Whilst priorities were rightly re-focussed during the pandemic, NMS should engage with SG to begin this review process.

79. 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 2022/23.

80. There are twelve Trustees plus a Chair on the Board. All members are appointed by the Scottish Ministers. In 2022/23, four Trustees term expired, and four new Trustees were appointed. A full induction process was provided for the new members to help familiarise them with their roles and responsibilities.

81. 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).

82. 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

83. 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.

84. 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.

85. In line with our comments last year, consideration has also been given to publishing papers along with the Board minutes, however, NMS has decided to continue to publish minutes of its Board meetings only. We recommend that this position is regularly reviewed as it is out of line with other public sector bodies.

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 2022/23.

The Strategic Plan 2022-27 has carbon neutrality as one of its strategic aims. NMS has arrangements in place to achieve the climate change targets set by the Scottish Government.

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 2022/23. 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 and workforce resources available.

There is an effective performance management framework in place. Performance levels improved during 2022/23

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. This year has continued to see NMS recover from the impacts of the pandemic. For example, visitor numbers increased back towards the levels seen pre-pandemic (3.2 million in 2018/19). NMS improved on its 2021/22 performance and exceeded its planned targets for 2022/23 performance in 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

	2021/22	2022/23 Target	2022/23 Results
Total number of on-site visitors	1.5 million	2.5 million	● 3 million
Online audiences	2.9 million	2.7 million	● 3.2 million
Total learning participation	140 thousand	146 thousand	● 206 thousand
Visitor satisfaction	87%	85%	● 85%
Accumulated total number of collections records online	N/A	791 thousand	● 795 thousand
% of collections storage meeting appropriate standards	N/A	N/A	N/A*
Organisational carbon emissions	1,648	N/A	● 1,545
Total value of revenue income	N/A	£3.0 million	● £4.7 million
Total value of capital income	N/A	N/A	Nil

*Paused during the pandemic and due to other competing staffing priorities not carried out in 2022/23. However, a target of 65% has been set for 2023/24.

Source: NMS Annual Report and Accounts 2022/23

The Strategic Plan 2022-27 has carbon neutrality as one of its strategic aims. NMS has arrangements in place to achieve the climate change targets set by the Scottish Government

93. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75 per cent reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

94. We have considered how climate change and sustainability is factored into the Museums' strategic priorities, its action plan, and targets for reducing its emissions, and the monitoring and reporting arrangements of these.

95. Sustainability is strategic aim three of the 2022-27 strategic plan: *We will be well advanced on the path to a carbon neutral footprint and a respected resource for understanding climate and biodiversity challenges.* NMS continue to reduce their carbon dioxide emissions by reducing energy consumption and efficiencies.

96. NMS has its own emissions reductions targets, including interim targets to measure progress. It regularly reports on progress towards climate goals, including within the Trustees Annual Report. NMS is transparent in its reporting against its responsibilities under the Climate Change Act (Scotland) 2009 and has a comprehensive area on its [website](#) regarding sustainability. The Sustainable Development Group (SDG) meet monthly and are responsible for creating the annual action plan available on the sustainability section of the website.

97. NMS commissioned a report in 2022/23 from Buro Happold to establish carbon reduction initiatives in year. This report identifies both short and long-term options, as well as estimated costs. The external review should be considered when determining future capital budget spend priorities which will allow for a clearer link to the strategic aim.

98. NMS is also required to submit an annual report to the Sustainable Scotland Network detailing compliance with the climate change duties imposed on it by the Climate Change (Emissions Reductions Targets) (Scotland) Act 2019 and the Climate Change (Scotland) Amendment Order 2020. The information returned by NMS is compiled into a national analysis report, published annually on the [Sustainable Scotland Network website](#). This includes data for all public sector organisations and supersedes the previous requirement for public bodies to publish individual sustainability reports.

Appendix 1. Action plan 2022/23

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Valuation of donated heritage asset - 2021/22 AAR</p> <p>The value applied in respect of assets received through HMRC's Cultural Gifts Scheme had been overstated as a result of using outdated information.</p> <p>Risk: Continued errors in future valuations placed on donated assets.</p>	<p>Management should ensure the accounts are prepared using the most up to date information available.</p>	<p>Complete</p> <p>As part of our 2022/23 audit work, we tested the acquisitions through HMRC's Cultural Gifts Scheme in year.</p> <p>We identified no issues as part of our testing.</p>
<p>b/f 2. Remuneration and staff disclosure - 2021/22 AAR</p> <p>Not all remuneration and staff disclosures as required by the Government Financial Reporting Manual (FReM) were included in Note 4.</p> <p>Risk: There is a risk all future required disclosures are not included.</p>	<p>Management should revise the process for drafting the accounts to ensure compliance with relevant financial reporting framework.</p>	<p>Complete</p> <p>A Remuneration and Staff Report has now been added to the accounts. Our work in 2022/23 concluded that this was consistent with the accounts and has been prepared in accordance with applicable guidance.</p>

National Museums Scotland

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk