

National Galleries of Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

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Key messages

2020/21 Trustees' annual report and financial statements

- 1 National Galleries of Scotland's (NGS) financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework. Our audit opinions on the financial statements are unmodified.
- 2 The other information in the Trustees' Annual Report is consistent with the financial statements and prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 3 Expenditure and Income were incurred in accordance with applicable enactments and guidance.

Financial management and sustainability

- 4 NGS has appropriate financial management arrangements in place. The body operated within its Departmental Expenditure Limits.
- 5 The systems of internal control were adapted to reflect new ways of working and NGS has maintained standards for the prevention and detection of fraud and error.
- 6 NGS has approved its 2021/22 budget and prepared a budget forecast up to financial year 2024/25. This forecast takes into consideration an estimate of the impact of Covid-19 outbreak.

Governance, transparency and value for money

- 7 Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that they are appropriate.
- 8 NGS has satisfactory best value arrangements and performance reporting in place.
- 9 Performance monitoring has continued throughout 2020/21. The pandemic has had a significant impact on key performance indicators.

Introduction

1. This report summarises the findings from our 2020/21 audit of National Galleries of Scotland (also referred to as “NGS”).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 2 March 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
 - an audit of NGS’s Trustees’ Annual Report and Financial Statements
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the body’s 2020/21 Trustees’ Annual Report and Financial Statements including the issue of an Independent Auditor’s Report setting out our opinions
 - a review of the body’s key financial systems
 - consideration of the four audit dimensions.
4. The global coronavirus pandemic has had a considerable impact on NGS during 2020/21. This has had significant implications for the services it delivers. We are pleased to note Covid-19 did not have a significant effect on the completion of our financial statements audit.

Adding value through the audit

5. We add value to the body through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
 - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

6. NGS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing a trustees' annual report and financial statements that are in accordance with the account's direction from the Scottish Ministers.

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

8. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), and supplementary guidance and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

Auditor Independence

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

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £23,880 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both NGS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

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

1. Audit of 2020/21 Trustees' Annual Report and Financial Statements

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

Main judgements

Our audit opinions on the financial statements are unmodified.

National Galleries of Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The other information in the Trustees' Annual Report is consistent with the financial statements and prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Our audit opinions on the Trustees' Annual Report and Financial statements are unmodified.

15. The Trustees' Annual Report and Financial Statements for the year ended 31 March 2021 are due to be approved by the board on 14 September 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income were regular and in accordance with applicable enactments and guidance
- the information provided in the Trustees' Report and Governance Statement is consistent with the financial statements and properly prepared in accordance with legislation and guidance.

Whole of Government Accounts (WGA)

16. In accordance with the WGA guidance we will complete the required assurance statement and submit it to the National Audit Office (NAO) by the revised deadline of 31 December 2021.

Overall materiality is £3.579m million

17. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and financial statements and agreement of audit adjustments. This is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Planning materiality	Revised Materiality
Overall materiality	£3.567 million	£3.579 million
Performance materiality	£1.784 million	£1.789 million
Reporting threshold	£35,000	£35,000

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

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

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

19. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have reported issues from the work done on the identified risks of material misstatement. These relate to valuation of land & buildings and donated heritage assets and are included in the action plan at [Appendix 1](#).

20. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2**Significant findings from the audit of financial statements**

Issue	Resolution
<p>1. Valuation of land & buildings</p> <p>Land & buildings held by NGS are subject to formal valuations every five years. In the years between formal valuations, buildings are revalued at depreciated replacement cost, using appropriate costs indices applied to historic cost. In 2020-21 the same source used in previous years was applied to the valuation (in line with other culture bodies), however during the audit it was identified that the indices used for the reassessment of the carrying value of buildings were not based on the most recent information available at the financial year end and there was a potential material misstatement in the carrying value of land & buildings at 31 March 2021.</p>	<p>Management obtained revised indices and have adjusted the financial statements to reflect this. This resulted in a reduction in the carrying value of land and buildings of £4.4m.</p> <p>A formal external valuation of land and buildings is due to be undertaken at 31 March 2022. Management have advised that, as part of the tender process, they will be seeking to incorporate the provision of indices within the contract to be applied were formal valuations are not undertaken.</p>
<p>2. Valuation of donated heritage assets</p> <p>We identified that the value applied in respect of a piece of artwork gifted to NGS had been understated by £0.5m as a result of an updated artwork valuation not being captured in NGS's systems and incorrect information being provided to the finance team. This artwork had been valued internally and information not recorded within the Collection Management System.</p>	<p>Management adjusted the financial statements to reflect the correct valuation for the artwork. This resulted in an uplift of £0.5m in the carrying value of heritage assets.</p> <p>We have audited the revised valuation and carried out an assessment of the remaining donated heritage assets valued on the same basis and gained assurance that the issue noted was not indicative of a risk of material misstatement in the population.</p> <p>Management have agreed that a review of the processes and controls in place relating to the provision of valuations of donated heritage assets to the finance team will be undertaken alongside the planned review of the overall Collections Management System.</p> <p>Recommendation 1 (refer Appendix 1, action plan)</p>

Identified misstatements of £4.9 million were adjusted in the accounts and we did not need to revise our audit approach

21. Total misstatements identified were £4.9 million. These represent audit adjustments in respect of the valuation of buildings and donated heritage assets as outlined within [Exhibit 2](#).

22. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We reviewed our audit approach to consider if additional testing was required and concluded that it was not required.

23. Adjustments made in the financial statements decreased the net movement in funds in the Statement of Financial Activities by £3.9m and decreased net assets in the Balance Sheet by £3.9m.

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

Progress made on prior year recommendations

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

2. Financial management

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

Main judgements

NGS has appropriate financial management arrangements in place and operated within its Departmental Expenditure Limits.

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

The body operated within its budget in 2020/21

26. The main financial objective for NGS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

27. NGS has reported an outturn of £21.672 million (2019/20: £20.475 million) against its overall budget for 2020/21 of £21.672 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against DEL in 2020/21

Performance	Final budget £m	Outturn £m
Resource DEL	15.945	15.945
Capital DEL (including purchase grant)	5.727	5.727
Total DEL	21.672	21.672

Source: 2020/21 NGS Trustees' Annual Report and Financial Statements

28. NGS also recognise other income of £7.316m (2019/20: £11.480m) in the Statement of Financial Activities. This consists of donations, income from charitable activities and income from other trading activities. This is a decrease of 36% on the prior year. During 2020/21, NGS also received £1.291m of funding in respect of the Coronavirus Job Retention Scheme. NGS's main source of income continues to be Grant in Aid from the Scottish Government which was £21.672m (71% of overall income) in 2020/21.

29. A large element of NGS's resource expenditure consists of staff costs which amounted to around £14.521m (65% of overall expenditure). Expenditure is split into the various activities, with Expenditure on Charitable Activities the most significant area of spend.

30. Overall, NGS remains in satisfactory financial health. The balance sheet shows what is owned and owed by NGS as at 31 March 2021. This currently shows net assets of £360.649m, an increase of £8.232m on the prior year. This increase is mainly attributable to increases in tangible assets, heritage assets and cash at bank.

Capital Expenditure

31. As reported in our Annual Audit Plan, due to delays to capital projects in previous years and the impact of Covid-19, the pace of construction had slowed and the original budget for capital spend for 2020/21 of £15.319m was reduced to £10.763m. The vast majority of the spend was attributable to the Scottish National Gallery (SNG) project.

32. The final capital spend for the year was £8.321m with the underspend primarily related to NGS's major capital projects – SNG and The Arts Works , both of which have been impacted by Covid-19 lockdown restrictions. Progress of the SNG project has also been impacted by the complex nature of the construction. The SNG project is currently forecast for completion by the end of the financial year 2022/23 while The Arts Works project is currently in its early design stage.

33. The total costs incurred in respect of the SNG project to 31 March 2021 was £21.177m with £6.739m relating to 2020/21. The project has been delayed due to the complex nature of the site and various challenges including asbestos, waterproofing, concrete obstructions encountered, in addition to the impact of the Covid-19 pandemic. The timeline and forecast budget for the project is currently under review and an update will be available in November 2021 on completion of the works at the south end of the building which are particularly complex in nature. The project is funded by the Scottish Government Capital Grant, a grant from the National Heritage Lottery Fund, and other external funders including the National Galleries of Scotland Foundation.

34. Management have revised the forecast cost position for major capital projects covering the period to 2025/26, with quarterly reviews of these costs continuing to be made by the Major Capital Projects Committee and Audit and Risk Committee.

Refer to [Appendix 1](#), recommendation B/fwd. 2

Budget processes were appropriate. There was a significant financial impact due to Covid-19

35. We examined NGS's budget setting and monitoring arrangements. From our review of budget monitoring reports, board and committee papers, and attendance at committees we confirmed that senior management and trustees receive regular, timely and up to date financial information on the financial position. We concluded that NGS has appropriate budgetary processes that allow board members and officers to carry out effective scrutiny of finances.

Financial systems of internal control are operating effectively

36. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

37. During our interim audit work in March 2021 we reviewed key financial systems and assessed controls in the following areas: the general ledger, creditors, debtors, payroll, and cash & banking.

38. We confirmed our understanding of the key controls, carried out walkthroughs of each control and concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NGS's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit arrangements are effective

39. Internal audit services are provided by Henderson Loggie. The Public Sector Internal Audit Standards (PSIAS) require the 'chief audit executive' to provide an annual internal audit opinion and report that can be used to inform the annual governance statement. The opinion provided in 2020/21 concluded that NGS has adequate and effective arrangements for risk management, control and governance.

40. We completed a local review of internal audit arrangements for NGS and have concluded these arrangements to be satisfactory. We can confirm Henderson Loggie adhere to the PSIAS.

41. We considered internal audit reports and findings to provide assurance over the wider audit dimensions we comment on in this report. As our audit of the financial statements is focused on substantive testing, we have not used the work of internal audit to support our opinions.

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

42. NGS is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, the board is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

43. We have reviewed the arrangements in place to maintain standards of conduct and concluded that these are appropriate for the prevention and detection of fraud, error and irregularities, bribery and corruption.

44. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. NGS has made some progress with regards to investigating the matches and the finance team will provide an update to the Audit and Risk Committee in August 2021.

3. Financial sustainability

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

Main judgements

NGS has approved its 2021/22 budget and prepared a budget forecast up to financial year 2024/25. This forecast takes into consideration an estimate of the impact of Covid-19 outbreak.

Financial planning

45. The draft 2021/22 budget was considered and approved by the board in March 2021, with the expectation of further revision.

The budget sets out the following:

- Grant-in aid (GIA) of £15.895m which is £0.05m less than the 2020/21 budget allocation. This includes Scottish Government funding awarded to cover the implementation of the 2021 pay policy.
- A further £2.566m of non-GIA revenue income, including self-generated income, grant & donation income, exhibition income and trading company income. The budget shows a challenging position reflecting the continued financial pressures of expected ongoing Scottish Government restrictions and the overall impact of the Covid-19 pandemic on visitor numbers.
- As the situation regarding Covid-19 support from Scottish Government and re-opening timings have evolved, management have kept the 2021/22 budget under review with a revised balanced budget shared with the Audit and Risk Committee and Board in late August/September 2021. A further revision to the budget is expected following the review of the six monthly results and future plans for the rest of the year.

46. Operations of the trading subsidiary continues to be significantly impacted by the pandemic due to the closures of sites during 2020/21 and ongoing Scottish Government restrictions. The trading subsidiary made a loss in 2020/21 of £0.236m (2019/20: £0.360m). NGS has provided financial support during the year, including absorption of the trading loss, suspension of the recharge of support costs, redeployment of the trading staff to Covid-19 roles in NGS, and an increase of the loan facility to £1.400m. Forecasts estimate that it will be 2022/23 at the earliest before the trading subsidiary will return to profitability.

47. Expenditure on capital projects in 2021/22 is forecasted to be £12.145m, primarily relating to the ongoing SNG and The Arts Works projects.

48. Budgets includes high level forecasts for operational activities and capital expenditure for the period up to 2024/25. The financial impact of the pandemic on NGS is likely to extend across several years. NGS has made good progress in estimating the potential impact of Covid-19 in the short and medium term, and they should continue this work going forward to ensure that forecasts consider:

- the continued impact of the pandemic on operations and other charitable activities
- any delays or cost impacts in relation to major capital projects.

Refer to [Appendix 1](#), recommendation B/fwd. 3

4. Governance and transparency

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

Main judgements

Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that they are appropriate

The governance arrangements and controls operating throughout the Covid-19 pandemic have been appropriate

49. The National Galleries of Scotland Act 1906, as amended by the National Heritage (Scotland) Act 1985, is the enabling legislation for NGS.

50. The Accountable Officer is Sir John Leighton, Director-General. The operational management of NGS is delegated by the Board of Trustees to the Director-General and his Leadership Team.

51. NGS has 12 trustees on its board during 2020/21. The board has five sub-committees, including the Audit and Risk Committee. Two new trustees were appointed in November 2020.

52. From attendance at Audit and Risk Committee meetings, and a review of board papers, we consider that papers were well prepared, and provided in sufficient time for review and consideration by board members. We conclude that trustees provide a good level of challenge to management, which demonstrates effective scrutiny.

53. The galleries first closed to the public at the end of March 2020 due to the pandemic and since then NGS has had most staff working from home. This has included use of online virtual conferences to ensure board and committee meetings take place remotely in order to maintain good governance.

54. We noted the steps taken to allow staff to prioritise their response to the pandemic and adapt their working practices. Home working was significantly expanded, and online applications were utilised to allow staff to continue to work and communicate. NGS has updated its policies on remote working and sickness absence as a result of the shift to home working.

55. The impact of Covid-19 from March 2020 has been set out in the Governance Statement of the Trustees' Annual Report and Financial Statements. In March 2020, NGS implemented an additional layer of internal control and governance to manage and control the impact of the pandemic. The Reopening Steering Committee met weekly throughout the financial year and is expected to wind up in July 2021 with two sub-groups, The Core Team Relaunch Group and Site Management Group, charged with the responsibility of operational management of all aspects of the response to the pandemic.

Governance issues noted during audit testing

56. During audit testing of income, we identified that there were two adjustments where there was an inadequate audit trail relating to the decision to reclassify income from revenue to capital. Management provided evidence which retrospectively documented the decisions made. This provided assurance that income had been appropriately recognised within the financial statements.

57. Officers undertake regular discussions with regards to income and expenditure as part of the existing governance structure and decisions are made by the appropriate individuals in line with delegated authorities. Management considers the existing arrangements to be appropriate and the issues noted were as a result of having to respond quickly to the national lockdown.

58. It is important that key decisions are made at the appropriate level, documented and audit evidence retained so that good governance continues to be demonstrated.

Openness and transparency

59. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

60. In the 2017/18, 2018/19 and 2019/20 Annual Audit Reports we reported that NGS publishes heavily redacted board minutes on its website. It does not publish any other board or committee minutes or papers on its website. NGS board and committee meetings are held in private. In January 2020, a paper was taken to the board regarding transparency and it was agreed that the minutes which are made publicly available would contain less redacted information. We reviewed board and committee minutes during the audit and noted that the minutes on the website had been updated as agreed.

Cyber Security

61. The Scottish Government issued a Public Sector Action Plan on Cyber Resilience in November 2017. This requires all public sector bodies to carry out a review to ensure that their cyber security arrangements are appropriate.

62. In 2017/18, 2018/19 and 2019/20 we reported that NGS was working towards the Cyber Essentials accreditation and were addressing actions raised by internal audit in 2016/17.

63. During 2020/21, although the main focus of the IT team had been the managing of the security challenges of home-working, progress had been made with regards to the issues which required to be resolved in order to achieve Cyber Essentials accreditation. NGS are currently targeting September 2021 to apply for this accreditation.

Refer to [Appendix 1](#), recommendation B/fwd. 6

5. Value for money

Using resources effectively and continually improving services

Main judgements

NGS has satisfactory best value arrangements performance reporting in place

Performance monitoring has continued throughout 2020/21. The pandemic has had a significant impact on key performance indicators

NGS has satisfactory best value arrangements and performance reporting in place

64. [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.

65. From our discussions with officers, review of board and committee papers and attendance at committee meetings, we conclude that NGS has satisfactory best value arrangements.

Performance management

66. The performance of NGS is monitored by the Board of Trustees and the Audit and Risk Committee against several performance targets which support the delivery of the Scottish Government's national performance framework. These targets and their plans are set out in NGS's 2019–2023 Strategic Plan.

67. The board is kept well informed of performance across all areas of activity. Responsibility for detailed review and scrutiny of performance lies with the Audit and Risk Committee. We attend Audit and Risk Committee meetings and review papers to gain insight into how well performance is scrutinised.

68. At each meeting of the Audit and Risk Committee, management present a financial and non-financial performance report. Performance is reported using a traffic light system covering NGS's key indicators. Performance reports contain detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

69. NGS Trustees' Annual Report for 2020/21 includes details of several KPI's which are monitored by management during the year. The key KPI's included within these reports are in respect of visitor numbers, website visits, customer satisfaction and social media engagement.

70. For 2020/21, the KPI in relation to visitor numbers dropped 95% from 2019/20. This was due to the combined impact of the substantial period of closure of the galleries due to the pandemic and reduced occupancy levels allowed under Scottish Government restrictions in the months that the sites could reopen during the year. There has been a 6.27% increase in web traffic figures which exceeded the set target and has largely been driven by the closure of the galleries and the continued digitisation of the collection. Visitor satisfaction levels were below the target of 90% but showed an improved position on the prior year. Engagement through social media was good in 2020/21 with targets being exceeded. This is demonstrated by the information summarised in [Exhibit 5](#). Note that for some of the KPI's shown information was not available for earlier years.

Exhibit 5

Key performance indicators – trend analysis

	2016/17	2017/18	2018/19	2019/20	2020/21
Visitor numbers	● 2,407,632	● 2,533,611	● 2,708,179	● 2,366,321	● 116,765
Increase in website user sessions	● 30%	● 7.16%	● 3.13%	● 0.77%	● 6.27%
Visitor satisfaction	n/a	● 94%	● 96%	● 86%	● 88%
Engagement via social media	n/a	n/a	● 11%	● 3.62%	● 3.89%

Source: National Galleries of Scotland Q4 KPI report

71. Having reviewed the reporting to the Audit and Risk Committee and the board we have concluded that NGS has appropriate performance management arrangements.

National performance audit reports

72. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2020/21 a number of reports were published which may be of direct interest to NGS. These are outlined in [Appendix 3](#).

Appendix 1. Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Valuation of donated heritage assets</p> <p>Our testing of valuation of donated assets identified a misstatement which resulted in an adjustment of £0.500m to the financial statements. The error resulted from the incorrect value of the donated artwork being provided to the finance team.</p> <p>Risk – There is a risk that processes and controls in place are insufficient to prevent a misstatement of the valuation applied to donated assets</p>	<p>A review of the processes and controls in respect of the valuation of donated assets recognised within the financial statements to be undertaken as part of the review of the Collections Management Systems.</p> <p>See Exhibit 2 for further details</p>	<p>NGS has plans to initiate a collections systems project which aims to ensure data accuracy. The project timelines are being developed. Until a system solution is implemented, a manual review process will be considered.</p> <p>Responsible Officers: Directors of Collection Care, Collections and Research and Finance.</p> <p>Target Date: 31 March 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>B/fwd. 1. Fixed Asset Register Data Review</p> <p>During 2019/20, National Galleries removed £660,000 worth of fully depreciated assets from the fixed asset register. There was no documentation to support the removal of these and the descriptions on the asset register were vague and could not be matched to specific assets.</p> <p>As these assets were fully depreciated, there was no balance sheet impact.</p> <p>Risk – There is a risk that NGS has assets included within the fixed asset register which are not supported by appropriate documentation</p>	<p>NGS began a process of reviewing their fixed asset register to ensure that all assets are identifiable and are supported by appropriate documentation.</p> <p>We recommend that NGS continue this review to ensure all assets on the fixed asset register can be matched to specific assets and are supported by appropriate documentation.</p>	<p>Not Actioned</p> <p>Due to staff working from home during the pandemic no progress has been made in respect of the fixed asset review and there is no estimate as to when this will be able to be undertaken.</p> <p>Revised date: 31 March 2022</p>
<p>B/fwd. 2. Capital projects</p> <p>Delays to the SNG project resulted in significant underspend against the 2019/20 capital budget.</p> <p>As a result of this NGS have had to re-profile the capital expenditure.</p> <p>Risk – There is a risk that further delays could lead to increased project costs in future years.</p>	<p>We recommend that NGS continue to closely monitor the capital spend on the SNG project going forward</p>	<p>Ongoing</p> <p>NGS continue to report a significant underspend in respect of their capital budget primarily due to the ongoing impact of Covid-19 on the major capital projects being undertaken. Management and trustees continue to closely monitor expenditure in respect of capital projects through quarterly updates of project costs and review of forecast expenditure.</p> <p>Revised date: Ongoing</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>B/fwd. 3. Financial Sustainability</p> <p>Due to the impact of Covid-19 NGS are forecasting significant financial pressures in 2020/21 and beyond. The impact of Covid-19 on the financial position of the NGS Trading Company is particularly challenging.</p> <p>Risk – There is a risk that NGS will not be able to achieve a break-even position for 2020/21</p>	<p>NGS have already made progress in adjusting forecasts to take account of the impact of Covid-19.</p> <p>We recommend that NGS continue to review these forecasts going forward for that they can take account of any future financial impact arising from Covid-19.</p>	<p>Fully Actioned</p> <p>No going concern or financial sustainability issues were identified during the 2020/21 audit.</p> <p>Management have adapted their operations to mitigate the financial impact of Covid-19 and have produced a 2021/22 budget which incorporates the anticipated impact of Covid-19.</p> <p>Discussions with management have highlighted that Covid-19 continues to significantly impact the operations of NGS and its trading subsidiary and therefore NGS is continuing to keep their budgets and forecasts for 2021/22 and beyond under regular review to ensure their financial sustainability going forward.</p>

Follow-up of recommendations from 2018/19

Issue/risk	Recommendation	Agreed management action/timing
<p>B/Fwd. 4. National Fraud Initiative (NFI)</p> <p>NGS are committed to the NFI exercise. However, the Fraud Policy does not make reference to this.</p>	<p>The Fraud Policy is due to be reviewed in 2019/20. We recommend that management embed the NFI exercise within the Fraud Policy and uses it as a source of assurances in its anti-fraud measures.</p>	<p>Fully Actioned</p> <p>The Fraud Policy was reviewed and updated in May 2021.</p> <p>A review has been undertaken in respect of the revised policy and while NFI is not mentioned by name within the policy it does note that NGS supports national and local initiatives against fraud.</p>

Follow-up of recommendations from 2017/18

Issue/risk	Recommendation	Agreed management action/timing
B/Fwd. 5. Risk Management		
<p>Internal audit identified scope for improvement in risk management arrangements</p>	<p>NGS should develop its risk management procedures in further detail, including</p> <ul style="list-style-type: none"> • Further detail in the risk management guidelines • Risk management training for managers • Management to consider how assurance is obtained in relation to risks identified • NGS to consider risk appetite 	<p>Fully Actioned</p> <p>Risk management training, run by Henderson Loggie, for trustees, the leadership team and heads of department was undertaken in April 2021.</p> <p>Following this training the Risk Register was reviewed to incorporate the principles of risk appetite. This was presented to the Audit and Risk Committee and Board of Trustees in June 2021.</p> <p>Further work is planned to be undertaken in 2021/22 with regards to the approach to how risks are reported at Board and Committee meetings and how these can be tied into KPIs and the delivery of the Strategic Plan.</p>
<hr/>		
B/Fwd. 6. ICT and Business Continuity Review		
<p>Internal audit did a follow-up of ICT and Business Continuity during 2017/18. They identified that progress had been made but a number of issues remain outstanding. NGS needs to address these issues as part of their aim to achieve Cyber Essentials accreditation from the Scottish Government.</p>	<p>NGS should continue to address the issues raised by internal audit review of ICT and business continuity management, including a full disaster recovery test. This will allow NGS to work towards Cyber Essentials accreditation.</p>	<p>Partially Actioned</p> <p>Progress has been made to address the issues identified by Internal Audit in 2016/17. However, a number of issues are still to be progressed and require to be completed.</p> <p>The priority of the IT team has been focussed on managing the security challenges resulting from staff working from home during the pandemic.</p> <p>NGS are currently targeting September 2021 to apply for Cyber Essentials accreditation</p> <p>Revised date: 31 December 2021</p>

Follow-up of recommendations from 2016/17

Issue/risk	Recommendation	Agreed management action/timing
<p>B/Fwd. 7. Training for Trustees</p> <p>NGS does not routinely offer training to its trustees after their initial induction. Training is useful to assist trustees in understanding their role and responsibilities.</p>	<p>NGS should offer training to its trustees to assist them in fulfilling their role. This is particularly important when trustees join new committees. The need for training should be considered as part of trustees' annual appraisals.</p>	<p>Partially Actioned</p> <p>Progress has been made with regards to Trustee training.</p> <p>Training in respect of Risk Management was carried out in April 2021 following its delay due to Covid-19.</p> <p>No other training has yet been arranged but NGS will keep the requirements for training of Trustees under review.</p> <p>Revised date: 31 March 2022</p>
<p>B/Fwd. 8. Review of Policies and Procedures</p> <p>During our audit, we identified that two of NGS's policies and procedures have not been reviewed for some time.</p> <p>There is a risk that these policies are no longer fit for purpose.</p>	<p>NGS should review its policies and procedures regularly, ideally annually, to ensure they are fit for purpose.</p>	<p>Partially Actioned</p> <p>Good progress has been made with regards to the implementation of recommendations made.</p> <p>The following key policies have been revised and approved during 2020/21:</p> <ul style="list-style-type: none"> • Acceptance of Gifts & Hospitality • Bribery Policy • Code of Conduct • Conflicts of Interest • Fraud Policy • Whistleblowing Policy <p>A full refresh of all NGS's policies is still in progress with input from HR team.</p> <p>Revised date: 31 March 2022</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>B/fwd. 9. Transparency</p> <p>NGS publishes heavily redacted board minutes on its website. It does not publish any other board or committee papers or minutes on its website. NGS does not have a documented rationale for this approach.</p>	<p>NGS should keep this area under review and consider whether there is scope to enhance transparency. This could include publishing board and committee papers online.</p>	<p>Fully Actioned</p> <p>A paper was taken to the board in January 2020 where it was agreed that the minutes that are made publicly available would contain less redacted information. NGS are satisfied that the information made available on their website is adequate and they do not intend to publish any further information.</p>

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>Although we have not identified any specific risks of management override of controls at NGS, Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit.</p> <p>This includes the risk of management override of controls that result in fraudulent financial statements.</p>	<ul style="list-style-type: none"> Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. Reviewed accounting estimates and accounting policies for biases. Evaluated significant transactions that are outside the normal course of business. Focused testing of the accruals and prepayments. 	<p>Results:</p> <p>We tested a sample of journals and no issues were identified</p> <p>We reviewed management's estimates and accounting policies and no indication of bias was identified.</p> <p>There were no significant transactions identified which were outside the normal course of business during our audit testing.</p> <p>We tested a sample of accruals and prepayments and no issues were identified.</p> <p>No issues of management override were identified during our audit testing.</p> <p>Conclusion:</p> <p>Assurance gained that there were no material misstatements due to fraud caused by management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>2. Risk of material misstatement caused by fraud in income and expenditure recognition.</p> <p>NGS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with IAS240, there is an inherent risk of fraud which requires an audit response. The Code of Audit Practice expands the ISA assumption to advise there is also a risk of fraud over aspects of expenditure, for public sector bodies.</p>	<ul style="list-style-type: none"> Analytical procedures on income and expenditure streams. Detailed testing of income and expenditure transactions focussing on areas of greatest risk Audit work on the National Fraud Initiative data matches 	<p>Results:</p> <p>No issues were identified from our testing of income and expenditure transactions.</p> <p>NGS have engaged with the NFI process and are following up on the all matches identified in line with the timeframes agreed. However, discussion with finance team highlighted that most of the matches noted were in respect of staff members with multiple employments and suppliers with regular invoiced amounts.</p> <p>No issues were identified in relation to fraud over income and expenditure.</p> <p>Conclusion:</p> <p>Assurance gained that there is no risk of material misstatement caused by fraud in income and expenditure recognition. National Fraud Initiative matches will be followed up as part of the 2021/22 audit.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3. Estimates and Judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, liabilities (Provisions, deferred income and accruals) and donated heritage asset additions. This includes the planned capital additions at the Scottish National Gallery.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Focussed substantive testing of key areas during the financial statements audit. • Substantive testing of liabilities and cut-off testing of income and expenditure • Review of accounting policies to ensure that these are reasonable and in line with the accounting framework. • Assessment of indexation factors applied to fixed assets to ensure these are from a reliable source. 	<p>Results:</p> <p>No issues were identified from our cut-off testing in relation to income and expenditure.</p> <p>No issues were identified from our audit testing of liabilities.</p> <p>No issues were identified from our review of accounting policies.</p> <p>During our substantive testing of indexation applied to the carrying value of buildings, a material error was identified, and an audit adjustment was agreed with management. Further details are included within Exhibit 2.</p> <p>During a review of the valuation of donated heritage assets an error was identified in respect of the carrying value of one of the assets sampled. An audit adjustment was agreed with management in respect of this. Further details are included within Exhibit 2 and an audit recommendation has been made in respect of this within Appendix 1.</p> <p>No further issues were identified during audit testing of the fixed assets.</p> <p>Conclusion:</p> <p>Assurance was gained that there is no risk of material misstatement resulting from key estimates and judgements.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability</p> <p>NGS, similar to other public sector bodies, are facing challenges to their financial sustainability.</p> <p>Although NGS are forecasting a break-even position for 2020/21, the organisation continues to face risks over its financial sustainability in the coming years due to uncertainty over future funding allocations and the impact of Covid-19.</p>	<ul style="list-style-type: none"> • Discussions with senior finance staff regarding budget plans and finance reports. • Review of NGS financial plans and budgets • Focussed cut-off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year. 	<p>Results:</p> <p>We have discussed financial sustainability and ongoing financial pressures with management and reviewed budgets and forecasts for 2021/22 and beyond.</p> <p>No issues were identified from our cut-off testing in relation to income and expenditure.</p> <p>Conclusion:</p> <p>Within the 2019/20 Annual Audit Report we made a recommendation with regards to budget monitoring going forward. With the impact of Covid-19 expected to continue to impact the activities of NGS beyond the current financial year, this continues to be our recommendation.</p> <p>See Appendix 1 Recommendation B/Fwd. 3</p>
<p>5. Capital projects</p> <p>NGS have a number of ongoing major capital projects, including the Scottish National Gallery project. There have been delays to capital projects in previous years and Covid-19 has caused the pace of construction to slow. The original budget for capital spend for 2020/21 was £15.3m, however the forecast has since been reduced to £10.8m.</p>	<ul style="list-style-type: none"> • Discussions with senior finance staff regarding budget plans and finance reports • Ongoing monitoring of budgets and finance reports presented to the Board, Audit and Risk Committee and Major Capital Committee • Year-end testing on capital expenditure. 	<p>Results:</p> <p>No issues were identified during audit testing of expenditure relating to capital project.</p> <p>Actual capital spend was approximately £8.3m in 2020/21 which is £2.5m lower than the revised forecast.</p> <p>Conclusion:</p> <p>Within the 2019/20 Annual Audit Report we made a recommendation with regards to monitoring capital spend. This continues to be our recommendation.</p>

Audit risk	Assurance procedure	Results and conclusions
There is a risk that any potential delays would lead to increased costs for NGS.		See Appendix 1 Recommendation B/Fwd. 2

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

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

[Local government in Scotland Overview 2020](#)

July

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

January

[Digital progress in local government](#)

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

February

[NHS in Scotland 2020](#)

March

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

National Galleries of Scotland

2020/21 Annual Audit Report

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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