

# National Galleries of Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

August 2022

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# Key messages

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## 2021/22 Trustees' Annual Report and Financial Statements

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 National Galleries of Scotland's annual report and accounts give a true and fair view of the state of affairs and were properly prepared in accordance with the financial reporting framework.
- 3 The other information in the Trustees' Annual Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Financial management

- 4 National Galleries of Scotland operated within its revised fiscal resources.
- 5 There is appropriate and effective financial management in place with regular budget monitoring reports provided to the board and other committees.
- 6 The Scottish National Galleries (SNG) project has experienced further delays which have resulted in total costs now estimated to be £37.500 million, and the completion date now estimated to be Summer 2023.
- 7 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

## Financial sustainability

- 8 National Galleries of Scotland has approved its 2022/23 budget and prepared a forecast up to financial year 2026/27. This takes into account the continuing impact of the recovery from the Covid-19 pandemic.

## **Governance and transparency**

- 9** 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 and effective governance arrangements in place.
- 10** The Board should continue to review their publicly available information to ensure that there is sufficient transparency with regards to National Galleries of Scotland's activities.

## **Value for money**

- 11** National Galleries of Scotland has satisfactory best value arrangements and performance reporting in place.
- 12** Performance monitoring has continued throughout 2021/22, the pandemic has had a significant impact on key performance indicators.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of National Galleries of Scotland (NGS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 31 May 2022 meeting of the Audit and Risk Committee. This report comprises the findings from:
  - an audit of the National Galleries of Scotland'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 2021/22 have been:
  - an audit of the National Galleries of Scotland 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 continued to have a significant impact on the activities of National Galleries of Scotland during 2021/22. Art galleries were operated in accordance with Covid-19 restrictions including physical distancing which reduced the visitor capacity levels. Visitor attendance in 2021/22 improved substantially on 2020/21 levels however, this only represented 29% of pre-pandemic visitor levels. As of March 2022, physical distancing measures were removed.

## Adding value through the audit

5. We add value to National Galleries of Scotland 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.** National Galleries of 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.

**7.** Also, National Galleries of Scotland is 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 the 2021/22 audit fee of £24,340 as set out in our 2021/22 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 National Galleries of Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

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

## Audit appointment from 2022/23

**15.** The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

**16.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23, a team from Audit Scotland with a new engagement lead will continue to be the appointed auditor for National Galleries of Scotland.

**17.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

**18.** We would like to thank Board members, Audit and Risk Committee members, Executive Team, and other staff, particularly those in finance for their co-operation and assistance over the last six years.

# 1. Audit of 2021/22 Trustees' Annual Report and Financial Statements

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

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

National Galleries of Scotland's annual report and accounts give a true and fair view of the state of affairs and were properly prepared in accordance with the financial reporting framework.

The other information in the Trustees' Annual Report and Governance Statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and director made by Scottish Ministers.

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## Our audit opinions on the Trustees' Annual Report and Financial Statements are unmodified

**19.** The annual report and accounts for the year ended 31 March 2022 were approved by the board on 12 September 2022. 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.

## The Covid-19 pandemic had a limited impact on audit evidence

**20.** The completeness and accuracy of accounting records and the extent of information and explanations were not affected by the Covid-19 outbreak.

**21.** The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

### **There annual audit report and accounts were submitted in line with our agreed audit timetable**

**22.** Submission dates for the audited annual report and reports and accounts for 2019/20 and 2020/21 were deferred in line with the later dates for producing the annual accounts because of the impact of Covid-19. For 2021/22, the deadline for the audited annual report and accounts is 31 October 2022.

**23.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 24 June 2022. Covid-19 had a limited impact on the audit process.

### **Whole of Government Accounts 2020/21 and 2021/22**

**24.** In accordance with the WGA (Whole of Government Accounts) guidance we completed the required assurance statement for the prior year financial statements and submitted in August 2022 to the National Audit Office (NAO). We anticipate completing the required assurance statement for 2021/22 and submitting it to the NAO once further guidance is published, after Board approval and audit certification of National Galleries of Scotland's Trustees' Annual Report and Financial Statements.

### **Overall materiality is £3.760 million**

**25.** 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 accounts and is summarised in [Exhibit 1](#). The revised materiality has had no impact on the audit approach. Our group and single entity levels of materiality were the same.

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#### **Exhibit 1**

##### **Materiality values**

<b>Materiality level</b>	<b>Planning materiality</b>	<b>Revised materiality</b>
Overall materiality	£3.782 million	£3.760 million
Performance materiality	£1.891 million	£1.880 million
Reporting threshold	£40 thousand	£40 thousand

Source: Audit Scotland

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**26.** The overall scope of the audit did not require to be adapted to incorporate the significant assessed risks of material misstatement included within Exhibit 2.

**27.** We have no significant findings to report on the annual report and accounts

**28.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 2

### Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to NGS, Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit.</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other adjustments during the period.</p>	<p><b>Results &amp; Significant Judgements:</b></p> <p>A review of the journal entry controls was undertaken, and assurance was gained that these were appropriate.</p> <p>In addition, Management carried out a quarterly review of journals posted, and no issues were highlighted. We confirmed that all journals were posted by the finance team.</p> <p>A review was carried out of the journal entries processed within the general ledger and financial statements and it was concluded that these were appropriate, processed by finance team members and were not considered to be unusual.</p> <p>A sample of journal entries processed were reviewed both during the year and at the year-end as part of audit testing and no issues were identified.</p>
	<p>Evaluate significant transactions outside the normal course of business.</p>	<p>There were no significant transactions identified which were outside the normal course of business during our audit testing.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</p>	<p>We reviewed management's controls in place for identifying and disclosing related parties and assurance was gained that these were adequate.</p>
	<p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p>	<p>We reviewed management's estimates and accounting policies no changes to the methods or underlying assumptions used were noted.</p>
	<p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p>	<p>We tested a sample of income and expenditure transactions around the year end and assurance was gained that these were being accounted for in the correct financial year.</p>
	<p>Focused testing of accruals and prepayments</p>	<p>We tested a sample of accruals and prepayments, and no issues were identified.</p> <p><b>Conclusion:</b> Assurance gained that there were no material misstatements due to fraud caused by management override of controls.</p>

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Audit risk	Assurance procedure	Results and conclusions
<p><b>2. Estimation in the valuation of land &amp; buildings</b></p> <p>National Galleries of Scotland held land and buildings with a NBV of £118.8m as at 31 March 2021, with land and buildings revalued on a five-year rolling basis. An external valuer carries out valuations of land &amp; buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land &amp; buildings, specifically in respect of those assets impacted by the SNG project. Valuations are based on specialist and management assumptions, changes in these can result in material changes to valuations.</p>	<p>Review the information provided to the external valuer to assess for completeness.</p> <p>Evaluate the competence, capabilities, and objectivity of the professional valuer.</p> <p>Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</p> <p>Critically assess the approach National Galleries of Scotland has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach.</p> <p>Test the reconciliation between the financial ledger and the property asset register.</p> <p>Critically assess the adequacy of the National Galleries of Scotland disclosures regarding the assumptions in relation to the valuation of land and buildings.</p>	<p><b>Results &amp; Significant Judgements:</b></p> <p>Meetings were held with management and the external valuer with regards to the process and approach to the valuation of land and buildings.</p> <p>An in-use valuation of the assets impacted by the SNG project was provided by the external valuer.</p> <p>An assessment was carried out of the external valuer and assurance was gained that they were independent of management and had the competency and capability to provide a valuation which we could place reliance on.</p> <p>There were no land and building assets which were not subject to valuation in 2021/22.</p> <p>All valuations were confirmed as being appropriately accounted for and disclosed within the financial statements.</p> <p><b>Conclusion:</b> Assurance was gained that there was no material misstatement in the valuation of land and buildings.</p>

## Other matters arising from the audit of the financial statements

**29. Financial Reporting Requirements:** Changes to the Government Financial Reporting Manual (FRoM) included the requirement for Charitable Non-Departmental Public Bodies (NDPB) to disclose the content required of the Remuneration and Staff Report, either within a separate report contained within the financial statements or by expanding the existing staff cost note disclosure.

**30.** We discussed the required changes with management and while Note 6 Staff Costs has been expanded to include additional disclosures, it has not been possible for management to include the required pension disclosures in respect of their Key Management Personnel (Directors).

**31.** National Galleries of Scotland implemented a new payroll system during 2021/22. Principal Civil Service Pension Scheme (PCSPS) contributions have continued to be paid to Cabinet Office on a monthly basis. However, interface files detailing contributions for individual members have not been submitted to the PCSPS administrators (myCSP) for November 2021 to March 2022. MyCSP are unable to accept these submissions until the data generated by the new payroll system has been fully tested. The testing process is currently ongoing, and as a consequence of this management have been unable to obtain the necessary data to make the disclosures required by the FReM.

**32.** In March 2022, a member of Key Management Personnel (Leadership Team) left the organisation under a voluntary exit scheme (VES), and management have not been able to obtain their consent to make the required salary disclosure within Note 6. This has been disclosed within the financial statements.

**33.** Management have agreed to review the FReM requirements going forward with a view to enhancing the Remuneration and Staff Cost disclosures in 2022/23.

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## **Refer to [Appendix 1](#), recommendation 1**

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### **An identified misstatements of £0.061 million was adjusted in the accounts, it was less than our performance materiality and we did not need to revise our audit approach.**

**34.** We have reviewed the nature and causes of this misstatement and have concluded that it was isolated, identified in its entirety and did not indicate further systemic error.

**35.** Adjustments made in the audited accounts decreased the net movement in funds in the Statement of Financial Activities by £0.061 million and decreased net assets in the Balance Sheet by £0.061 million.

**36.** 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.

### **Substantial progress was made on prior year recommendations**

**37.** Management have made substantial progress in implementing our prior year audit recommendations and are set out in [Appendix 1](#).

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## 2. Financial management

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

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### Main judgements

National Galleries of Scotland operated within its revised fiscal resources.

There is appropriate and effective financial management in place with regular budget monitoring reports provided to the board and other committees.

The Scottish National Galleries (SNG) project has experienced further delays which have resulted in total costs now estimated to be £37.500 million, and the completion date now estimated to be Summer 2023.

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

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### **We have obtained audit assurances over the wider audit dimension risks relating to Financial Management identified in our 2021/22 Annual Audit Plan**

**38.** [Exhibit 3](#) sets out the audit dimension risks relating to Financial Management we identified in our 2021/22 audit. It summarises the audit procedures we planned to perform during the year to obtain assurances over these risks and the conclusions from the work completed.

**Exhibit 3****Risks identified from the auditor's wider responsibility under the Code of Audit Practice**

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Financial Management – Capital projects</b></p> <p>In our 2020/21 Annual Audit Report we reported that the Scottish National Galleries (SNG) project has been delayed due to the complex nature of the site and the impact of the Covid-19 pandemic.</p> <p>National Galleries of Scotland are currently reviewing the timeline, forecast costs and additional funding requirements for the SNG project as a consequence of the delays experienced.</p>	<p>Discussions with senior finance staff regarding budget plans and finance reports.</p> <p>Review of budgeting and finance reports presented to the Board, Audit and Risk Committee and Major Capital Programme Committee</p> <p>Year-end testing of capital expenditure and classification of assets under construction,</p>	<p><b>Results &amp; Significant Judgements</b></p> <p>We have discussed the SNG project with management and reviewed the revised forecast for the project costs approved by the Board.</p> <p>Regular financial reporting was agreed as being provided the Board, Audit &amp; Risk Committee and Major Capital Programme Committee in respect of the SNG project.</p> <p>No issues were identified from our detailed testing of expenditure capitalised within assets under construction relating to the SNG project.</p> <p><b>Conclusion:</b></p> <p>Assurance was gained that National Galleries of Scotland has appropriate financial management arrangements in place to monitor the SNG project.</p> <p>Assurance was also gained that expenditure in respect of the SNG project had been appropriately recognised within assets under construction.</p> <p>Further details in respect of the SNG project are included within the Capital Expenditure section of this report below.</p>

## National Galleries of Scotland operated within its revised budget in 2021/22

**39.** The main financial objective for National Galleries of Scotland is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. National Galleries of Scotland also must self-generate income and manage costs over the long-term to ensure financial sustainability.

**40.** As a charitable Non-Departmental Public Body, National Galleries of Scotland is primarily funded by the Scottish Government by way of grant in aid. For 2021/22, the financial statements show that National Galleries of Scotland received £21.328 million from the Scottish Government. This comprised a revenue grant of £17.158 million and a capital grant of £4.17 million.

**41.** National Galleries of Scotland has reported an outturn of £21.328 million (2020/21: £21.672 million) against its overall budget for 2021/22. The financial performance against fiscal resources is shown in [Exhibit 4](#).

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### Exhibit 4 Performance against fiscal resource in 2021/22

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource	17.158	17.158	-
Capital	4.170	4.170	-
Total	21.328	21.328	-

Source: 2021/22 National Galleries of Scotland Trustees' Annual Report and Financial Statements

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**42.** National Galleries of Scotland also recognises other income of £12.392 million (2020/21: £7.316 million) in the Statement of Financial Activities. This consists of donations (including donations of Artwork), income from charitable activities and income from other trading activities. This is an increase of 69% on the prior year. During 2021/22, National Galleries of Scotland received £0.200 million (2020/21: £1.291 million) of funding in respect of the Coronavirus Job Retention Scheme. National Galleries of Scotland's main source of income continues to be Grant in Aid from the Scottish Government which was £21.328 million (63% of overall income) in 2021/22.

**43.** A large element of National Galleries of Scotland's resource expenditure consists of staff costs which amounted £15.069 million (64% of overall expenditure). Expenditure is split into the various activities, with Expenditure on Charitable Activities the most significant area of spend.

**44.** Overall, National Galleries of Scotland remains in satisfactory financial health. The balance sheet shows what is owned and owed by National Galleries of Scotland as at 31 March 2022. This currently shows net assets of £368.489 million, an increase of £7.840 million. This is mainly attributable to increases in tangible assets, heritage assets, investments, and cash at bank.

### **Budget processes were appropriate.**

**45.** We examined National Galleries of Scotland's budget setting and monitoring arrangements. From our review of budget monitoring reports, Board and Committee papers, and attendance at Audit and Risk Committee meetings we confirmed that senior management and Trustees receive regular, timely and up to date financial information on the financial position. We concluded that National Galleries of Scotland has appropriate budgetary processes that allow board members and officers to carry out effective scrutiny of finances.

### **Capital expenditure**

**46.** National Galleries of Scotland had a revised budget capital spend for 2021/22 of £11.587 million. The actual capital spend for the year was £8.287 million with the underspend primarily related to the SNG project which has continued to be impacted by construction delays on site.

**47.** Management have revised the forecast cost position for total capital expenditure covering the period to 2026/27, with quarterly reviews of these costs continuing to be made by the Major Capital Programme Committee and Audit and Risk Committee.

**48.** As reported in our 2020/21 Annual Audit Report, the SNG project was significantly impacted by the Covid-19 lockdown restrictions and the complex nature of the construction and delays in the project have continued in 2021/22 as a result.

**49.** The total costs incurred in respect of the SNG project to 31 March 2022 was £27.827 million with £6.650 million relating to 2021/22. The forecast budget and timeline for the completion of the project was reviewed by management, the Major Capital Programme Committee and Audit and Risk Committee during 2021/22 and a revised project budget was approved by the Board of Trustees in March 2022.

**50.** The current forecast costs for the completion of the SNG project per the revised budget is £37.500 million (original budget £21.500 million set in 2018). The construction on the project is forecast to be completed, and the site handed over to National Galleries of Scotland early 2023, with the opening of the full site to the public being planned for Summer 2023 (originally planned to open in 2021).

**51.** 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. See [Exhibit 5](#) below details of current project funding.

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### Exhibit 5 Current SNG project funding

Funding Source	Total £m	Proportion
Scottish Government	15.050	40%
National Heritage Lottery Fund	5.915	16%
Trusts and Foundations <sup>1</sup>	6.235	17%
Artwork loan fees and donations	8.800	23%
Total	36.000	n/a
Additional project costs agreed March 2022 <sup>1</sup>	1.500	4%
Total project funding	37.500	100%

Source: SNG Update Report March 2022

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<sup>1</sup> National Galleries of Scotland is still to secure approximately £3.100 million of funding from targeted donations from Trusts and Foundations which includes the additional £1.500 million project costs agreed in the revised budget.

**52.** Management and the Board should continue to closely monitor the SNG project to ensure that additional funding is secured, and the project is completed within the revised budget and timescale.

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## Refer to [Appendix 1](#), recommendation 2

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### Financial systems of internal control are operating effectively

**53.** 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 National Galleries of Scotland has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**54.** During our interim audit in March 2022, we reviewed key financial systems and assessed controls in the following areas: the general ledger, creditors, debtors, payroll and cash and banking. We also reviewed the implementation of the new payroll system.

**55.** We confirmed our understanding of the key controls, carried out walkthroughs of each control and concluded that the control tested were operating effectively. No significant internal control weaknesses were identified during the audit which could affect National Galleries of Scotland'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**

**56.** 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 2021/22 concluded that, "*with the exception of the weaknesses highlighted around Archive and Library Management, National Galleries of Scotland has adequate and effective arrangements for risk management, control, and governance*".

**57.** We completed a local review of internal audit arrangements for National Galleries of Scotland and have concluded these arrangements to be satisfactory. We can confirm Henderson Loggie adhere to the PSIAS.

**58.** 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**

**59.** There are appropriate arrangements for the prevention and detection of fraud, error, and irregularities. The National Galleries of Scotland 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.

**60.** We have reviewed the arrangements in place and concluded that these are appropriate for the prevention and detection of fraud, error and irregularities, bribery, and corruption. We are not aware of any specific issues that we need to bring to your attention.

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# 3. Financial sustainability

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

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## Main judgements

National Galleries of Scotland has approved its 2022/23 budget and prepared a forecast up to financial year 2026/27. This takes into account the continuing impact of the recovery from the Covid-19 pandemic.

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## We have obtained audit assurances over the wider audit dimension risks relating to Financial Sustainability identified in our 2021/22 Annual Audit Plan

61. [Exhibit 6](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

## Exhibit 6

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>Financial sustainability</b></p> <p>National Galleries of Scotland, like other public sector bodies, are facing challenges to their financial sustainability. Although, National Galleries of Scotland are forecasting a break-even position for 2021/22 the organisation continues to face risks over its financial sustainability in the coming years due to uncertainty over future funding allocations and the continuing recovery following the Covid-19 pandemic.</p>	<p>Discussions with senior finance staff regarding budget plans and finance reports</p> <p>Review of financial plans and budgets</p> <p>Focussed cut off testing at the year end to confirm income and expenditure has been accounted for in the correct financial year</p>	<p><b>Results &amp; Significant Judgements:</b></p> <p>We have discussed financial sustainability and ongoing financial pressures with management and reviewed budgets and forecasts for 2022/23 and beyond.</p> <p>Regular financial reporting was agreed as being provided the Board, Audit and Risk Committee, and other committees.</p> <p>No issues were identified from our cut off testing in relation to income and expenditure.</p> <p><b>Conclusion:</b></p> <p>Assurance was gained that the body's financial management arrangements are appropriate and sufficient to monitor and manage the organisations risk over its financial sustainability.</p>

### National Galleries of Scotland's medium-term financial plan has been revised to take into account the continued impact of Covid-19

**62.** The draft 2022/23 budget was considered and approved by the Board in March 2022. National Galleries of Scotland is forecasting a balance budget for the 2022/23 period.

The operational activities budget sets out the following:

- Total income is expected to be £20.497 million, including Grant in Aid (GIA) from the Scottish Government of £16.460 million. This funding will therefore remain the main source of income (80%). The remaining non-GIA income of £4.037 million includes income from self-generation, grants & donations, exhibitions, and trading.
- Total expenditure is expected to be £20.497 million, including £14.8 million in respect of staff costs.

- The forecast includes the impact of the implementation of the 2022 pay policy.

**63.** Expenditure on capital projects in 2022/23 is forecast to be £12.374 million, primarily relating to the ongoing SNG (£8.750 million) and The Arts Works (£2.289 million) projects.

**64.** National Galleries of Scotland should continue to keep their 2022/23 budget under review with a reforecast expected following the review of the six-monthly results and future plans for the rest of the year.

**65.** Operations of the trading subsidiary have improved from the prior year as Scottish Government restrictions have eased and visitor numbers to the galleries have risen, but income continues to be below pre-pandemic levels. The trading subsidiary made a £0.069 million profit (2020/21: £0.236 million loss).

**66.** National Galleries of Scotland provided financial support to its trading subsidiary during the year, including the continued suspension of the recharge of support costs, redeployment of staff within National Galleries of Scotland and not seeking any repayment in respect of the £1.400 million loan facility extended in 2020/21.

**67.** The current forecast for 2022/23 is that the trading subsidiary will break-even and will continue to be financially supported by National Galleries of Scotland during the recovery period.

**68.** National Galleries of Scotland's budget includes high level forecasts for operational activities and capital expenditure for the period up to 2026/27 and highlights that the financial impact of the pandemic on National Galleries of Scotland is anticipated to extend across several years.

**69.** The forecast for operation activities for the period 2023/24 to 2026/27 assumes that Scottish Government GIA will remain at £16.460 million and operational costs will increase. The current forecast is that costs will exceed income by £0.645 million for 2023/24, £0.461 million for 2024/25, £0.996 million for 2025/26 and £0.995 million for 2026/27. This will mean that funding from Non-GIA sources will need to be increased to cover the anticipated increase in running costs in order to break even over this period.

**70.** Management are currently in the process of finalising a 5 year capital investment plan covering the period to 2026/27.

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# 4. Governance and transparency

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

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## 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 and effective governance arrangements in place.

The Board should continue to review their publicly available information to ensure that there is sufficient transparency with regards to National Galleries of Scotland's activities.

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

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

**72.** The Accountable Officer is Sir John Leighton, Director-General. The operational management of National Galleries of Scotland is delegated by the Board of Trustees to the Director-General and his Leadership Team.

**73.** National Galleries of Scotland had 12 Trustees on its Board during 2021/22. The Board has five sub-committees, including the Audit and Risk Committee. Three new Trustees were appointed in January 2022.

**74.** 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.

**75.** We reported in our 2020/21 Annual Audit Report on the revised governance arrangements introduced by National Galleries of Scotland in response to the Covid-19 pandemic including:

- Utilising online virtual conferences to ensure Board and other Committee meetings could take place remotely in order to maintain good governance.

- Implementation of an additional layer of internal control and governance with the establishment of The Reopening Steering Committee, The Core Relaunch Group and The Site Management Group to manage the impact of the crisis and control National Galleries of Scotland's response.

**76.** The continued response to the Covid-19 pandemic has been set out in the Governance Statement of the Trustees' Annual Report and Financial Statements. Meetings continued to be held remotely throughout 2021/22. The Reopening Steering Committee met weekly until September 2021 with the work subsumed into the full Leadership Team from that date.

**77.** In-person meetings recommenced post year end with arrangements put in place for individuals to continue to attend these meetings remotely.

**78.** We have reviewed these arrangements and concluded that they remain appropriate.

## Transparency

**79.** National Galleries of Scotland publish minutes of Board of Trustee meetings on their website. We have reviewed these and while they are published on a timely basis, they continue to be redacted and supporting papers presented at meetings are not made publicly available, on the basis that these are commercially sensitive.

**80.** The Board should continue to review their publicly available information to ensure that there is sufficient transparency with regards to National Galleries of Scotland's activities.

## Cyber Security

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

**82.** In 2017/18, 2018/19, 2019/20 and 2020/21 we reported that National Galleries of Scotland was working towards the Cyber Essentials accreditation and were addressing actions raised by internal audit in 2016/17.

**83.** National Galleries of Scotland achieved Cyber Essentials accreditation in May 2022.

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

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# 5. Value for money

Using resources effectively and continually improving services

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## Main judgements

National Galleries of Scotland has satisfactory best value arrangements and performance reporting in place.

Performance monitoring has continued throughout 2021/22, the pandemic has had a significant impact on key performance indicators.

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## National Galleries of Scotland has satisfactory best value arrangements and performance reporting in place

**84.** [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.

**85.** From our discussions with officers, review of Board and Committee papers and attendance at Audit and Risk Committee meetings, we conclude that National Galleries of Scotland has satisfactory best value arrangements.

## Performance management

**86.** The performance of National Galleries of Scotland 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 National Galleries of Scotland's 2022-2027 Strategic Plan.

**87.** 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.

**88.** 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 National Galleries of Scotland's key indicators. Performance reports contained detailed information for each performance target including trend analysis, specific performance issues and actions being taken to improve performance.

**89.** National Galleries of Scotland's Trustee's Annual Report for 2021/22 includes details of several key performance indicators which are monitored by management during the year. The key performance indicators included within these reports are in respect of visitor numbers, website visits, customer satisfaction and social media engagement.

**90.** For 2021/22, while the key performance indicator in relation to visitor numbers improved significantly on the prior year due to increased visitor capacity and easing of restrictions, visitor numbers have not yet returned to pre-pandemic levels. There has been an 28% increase in web traffic figures which was in line with the target to see increases year on year. The significant increase on the prior year mainly driven by users planning visits and making bookings for exhibitions. Visitor satisfaction was above the target level of 90% and showed an increase on the prior two years levels. Engagement through social media was good in 2021/22 with targets being exceeded. This is demonstrated by the information are summarised in [Exhibit 7](#). Note that for one of the KPI's shown below the information was not available for earlier years.

## Exhibit 7

### Key performance indicators – trend analysis

	2017/18	2018/19	2019/20	2020/21	2021/22
Visitor numbers	● 2,533,611	● 2,708,179	● 2,366,321	● 116,765	● 780,275
Increase in website user sessions	● 7.16%	● 3.13%	● 0.77%	● 6.27%	● 28%
Visitor satisfaction	● 94%	● 96%	● 86%	● 88%	● 91%
Engagement via social media	n/a	● 11%	● 3.62%	● 3.89%	● 3.5%

Source: National Galleries of Scotland Q4 KPI report

**91.** Having reviewed the reporting to the Audit and Risk Committee and the Board we have concluded that National Galleries of Scotland has appropriate performance management arrangements.

### National performance audit reports

**92.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2021/22 several reports were published which may be of direct interest to the body. These are outlined in [Appendix 2](#).

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Remuneration and Staff Costs disclosures</b></p> <p>During the 2021/22 audit it was identified that there were changes to the Government Financial Reporting Manual (FReM) included the requirement for Non-Departmental Public Bodies (NDPB) to disclose the content required of the Remuneration and Staff Report, either within a separate report contained within the financial statements or by expanding the existing staff cost note disclosure.</p> <p>Management have made additional disclosure within the 2021/22 financial statements but these are not currently fully complying with the FReM.</p>	<p>A review should be carried out of the Remuneration and Staff Costs disclosures with the aim of being fully compliant with the FReM in the 2022/23 financial statements.</p> <p>See <a href="#">Paragraph 33</a></p>	<p>2022/23 financial statements will be prepared to comply with the requirements of the FReM in respect of Remuneration and Staff Costs.</p> <p>Management are considering including a separate Remuneration and Staff Costs report within the 2022/23 financial statements.</p> <p>Responsible officer: Finance Director</p> <p>Agreed date: 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>2. SNG Project</b></p> <p>Further delays were experienced with the project in 2021/22.</p> <p>The forecast budget and timeline for the completion of the project was reviewed and a revised project budget was approved by the Board of Trustees in March 2022.</p> <p>The current forecast costs for the completion of the SNG project per the revised budget is £37.500 million, with the opening of the full site to the public being planned for Summer 2023.</p>	<p>Management and the Board should continue to closely monitor the SNG project to ensure that additional funding is secured, and the project is completed within the revised budget and timescale.</p> <p>See <a href="#">Paragraph 52</a></p>	<p>Management and Trustees will continue to closely monitor the SNG project through regular progress reports, including updates of project costs, forecast expenditure and funding reports until the project is completed.</p> <p>Responsible officer: Chief Operating Officer</p> <p>Agreed date: Ongoing – Project Completion Date (Estimated to be Summer 2023).</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>B/fwd 1. Valuation of donated heritage assets</b></p> <p>Our testing of valuation of donated assets identified as misstatement which resulted in an adjustment of £0.5m 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><b>Fully Actioned</b></p> <p>A review of the processes and controls in respect of donated assets was completed in 2021/22 and discussions were held between Finance and the Collections Management team to ensure the evidence to support the valuation of donated assets were available to Finance to support the carrying values recognised within the financial statements.</p> <p>A 5-year investment plan has been prepared which highlights investment in the Collections Management System as a priority with funding to be sought in 2022/23.</p>

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## Follow-up of recommendations from 2019/20

Issue/risk	Recommendation	Agreed management action/timing
<p><b>B/fwd. 1. Fixed Asset Register Data Review</b></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><b>Risk</b> – 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><b>Fully Actioned</b></p> <p>A fixed asset register review was completed in 2021/22.</p> <p>Adjustments were processed within the financial statements to remove further fully depreciated assets.</p>
<p><b>B/fwd. 2. Capital projects</b></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><b>Risk</b> – 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><b>Fully Actioned</b></p> <p>The SNG project was discussed at all meetings of the Board of Trustees, Audit and Risk Committee and Major Capital Programme Committee throughout 2021/22.</p> <p>The project budget was reviewed at each of these meetings with a revised forecast approved by the Board of Trustees meeting in March 2022.</p> <p>Assurance was gained that NGS has appropriate processes in place to closely monitor the capital spend on the SNG project.</p>

## Follow-up of recommendations from 2017/18

Issue/risk	Recommendation	Agreed management action/timing
<p><b>B/Fwd. 3. ICT and Business Continuity Review</b></p> <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.</p> <p>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><b>Fully Actioned</b></p> <p>NGS achieved Cyber Essentials accreditation in May 2022</p>

## Follow-up of recommendations from 2016/17

Issue/risk	Recommendation	Agreed management action/timing
<p><b>B/Fwd. 4. Training for Trustees</b></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><b>Fully Actioned</b></p> <p>Three new Trustees were appointed in 2021/22.</p> <p>In addition to their initial induction, plans are in place for Trustees to attend Scottish Government On-Boarding training and Charity Trustee Governance training in 2022/23.</p> <p>Training requirements for Trustees will be kept under review and NGS will seek all opportunities to provide training and support to Trustees, as required, whether this is through attendance at internal training or externally provided training courses.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>B/Fwd. 5. Review of Policies and Procedures</b></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><b>Fully Actioned</b></p> <p>Following the review of key policies which commenced in 2020/21, further updates have been made to HR policies in 2021/22.</p> <p>The Trustees Code of Conduct was revised and approved by the Scottish Government in July 2022. The revised Code and is scheduled to be presented to the Board for approval at the September 2022 meeting.</p> <p>All key policies have now been reviewed and NGS has implemented a process to review these on a regular basis.</p>

## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# National Galleries of Scotland

## 2021/22 Annual Audit Report

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