

National Library of Scotland

Report on the 2008/09 audit

November 2009



 AUDIT SCOTLAND



National Library of Scotland

Report on the 2008/09 Audit

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Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by the National Library of Scotland (NLS). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of NLS for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

NLS is required to work within its resource budget set by the Scottish Government. In 2008/09 NLS overspent the non-cash items by £0.329 million. NLS received Scottish Government approval to this overspend.

There is been little movement in the NLS balance sheet at 31 March 2009 with net assets of £106.842 million compared with net assets of £107.990 million at 31 March 2008.

Scottish Ministers have agreed a financial allocation for NLS of £19.865 million for 2009/10. This comprises operating expenditure of £14.157 million, capital expenditure of £1.3 million and non-cash costs of £ 4.408 million.

NLS was required to make efficiency savings of 2% per annum for the period 2008/09 to 2010/11. In 2008/09 NLS achieved this target delivering cash releasing savings totaling £0.270 million. In addition to this NLS achieved non-cash releasing savings of £0.085 million. These will be challenging targets for NLS to achieve in 2009/10 and 2010/11 as 2% represents a considerable sum in relation to NLS' non salary cost base. The delivery of efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge.

Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the NLS operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.



Performance

NLS set performance targets under the four key themes outlined in the corporate plan. NLS reported that reader visits to the Library were 1% above target however there was a significant decrease in the number of website users which was mainly due to problems with the website monitoring software. The target for visitor numbers to events which included the Burns Exhibition was exceeded by 30%.

NLS published its corporate plan for 2009/12 in July 2009. The corporate plan has four key themes: developing the collections, developing the organisation, building relationships and widening access to knowledge. Under each theme there are target outcomes and they are mapped to the Scottish Government priorities. NLS also aims to contribute data to “Scotland Performs” to enable NLS activity to be directly associated with the achievement of national priorities. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints.

Looking forward

The final part of our report notes some key risk areas and issues for the NLS and going forward. NLS faces significant financial pressure over the next two years to achieve the required efficiency savings. Effective budget monitoring and reporting arrangements will be crucial to NLS achieving its financial targets within tighter funding settlements. We will continue to monitor financial planning arrangements and the NLS financial position. We highlighted a number of national issues which affect all public sector bodies including the NLS, including the National Performance Framework; and the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangement in public bodies across Scotland.

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

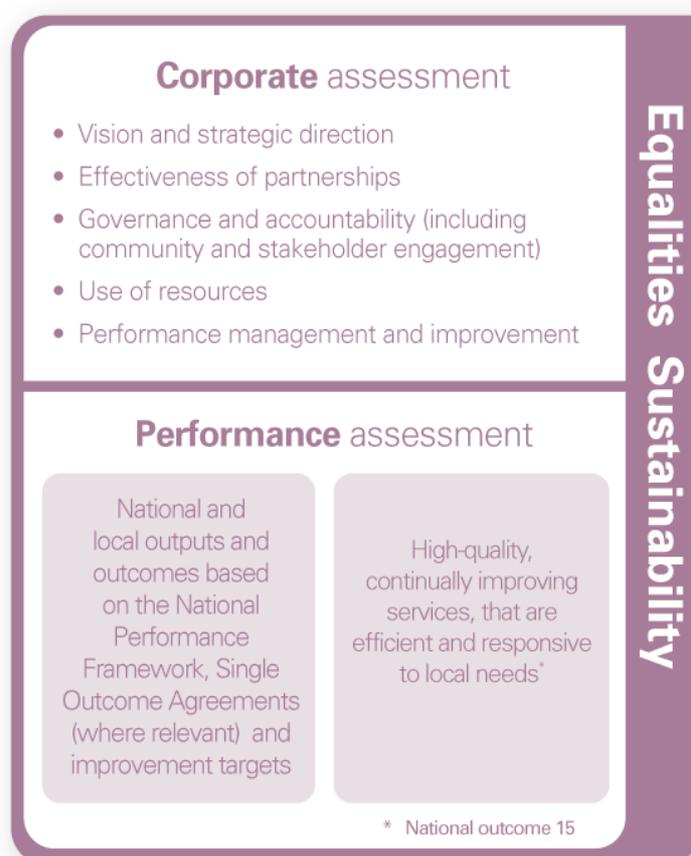
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Introduction

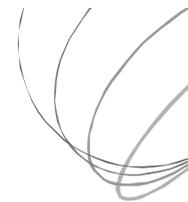
1. This report summarises the findings from our 2008/09 audit of the NLS. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 23 March 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued an interim management report this year. An action plan has been agreed by management to address key issues.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of NLS' arrangements.

Exhibit 1: Framework for a best value audit of a public body





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for NLS throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by staff and Board members of NLS during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

7. In this section we summarise key outcomes from our audit of the NLS financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of NLS and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the Report of the Board of Trustees' within the financial statements
 - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the National Librarian as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of NLS.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of NLS for 2008/09.
11. As agreed the unaudited accounts were provided to us on 16 June 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 07 September 2009 as timetabled.

Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 07 September 2009 the main issues arising from our audit of the financial statements. The key issues were as follows:



13. **Visitor centre project**- NLS incurred expenditure of £1.6 million over the period 2007-2009 on the Visitor Centre Project (VCP). The expenditure was capitalised in the Fixed Asset Register as an addition to land and buildings and the 2007-08 expenditure was depreciated. The centre is still under construction and no depreciation should be charged until the centre is operational. The Library has undertaken to carry out a revaluation of the VCP in 2009/10.
14. **Monitoring resource budget outturn**-NLS reported an overspend against budget for the non-cash elements of grant-in-aid approved by the Scottish Government as noted at paragraph 18. A letter of support covering the shortfall of £0.329 million is in place with the Scottish Government providing assurance to NLS that there will be no recovery of excess non-cash items against the 2009/10 grant-in-aid. However, the Scottish Government has indicated that the same support may not be available in future years. NLS has agreed to ensure that adequate in-year monitoring arrangements are in place for future years.

Regularity

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

16. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for the financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008. However, this timetable does not apply to registered charities, such as NLS, which will be required to follow a slower timetable for convergence agreed by the UK Accounting Standards Board. Notwithstanding the slower timetable applying to NLS, the convergence process may require significant resource to complete and it is important that the NLS properly plans to manage the transition over the next few years.



Use of Resources

17. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NLS' of Scotland's financial position and use of resources.

Financial Position

Outturn 2008/09

18. NLS is required to work within its resource budget set by the Scottish Government. The total financial allocation set by the Scottish Government for NLS for 2008/09 was £20.545 million. This figure comprises an operating budget of £13.934 million, a capital budget of £1.430 million, and non-cash items of £5.181 million. In 2008/09 NLS overspent the non-cash items by £0.329 million – see exhibit 2 below. NLS received Scottish Government approval for this overspend. NLS drew down its full cash grant-in aid entitlement.

Exhibit 2 – Performance against resource budget 2008/09 (£ million)

	Grant in Aid offer	Actual Outturn	Difference £m
Cash Items			
Operating costs	13.934	13.934	nil
Capital	1.430	1.430	nil
Non Cash			
Cost of Capital	2.592	2.547	0.045
Depreciation	2.589	2.963	(0.374)
			(0.329)

19. The FReM requirement to account for grant in aid as a credit to reserves has resulted in an excess of expenditure over income of £14.796 million (2007/08:£15.303 million) The decrease of £0.507 million was due mainly to an increase in other income. The grant-in aid credited to reserves for 2008/9 was £13.934 million (2007/08:£13.984 million). There has been little movement in the NLS balance sheet at 31 March 2009, with net assets of £106.842 million compared with net assets of £107.990 million at 31 March 2008.

Financial sustainability and the 2009/10 budget

20. Scottish Ministers have agreed a budget for the National Library of Scotland of £19.865 million for 2009/10. This comprises operating expenditure of £14.157 million, capital expenditure of £1.3 million and non-cash costs of £4.408 million.



21. This is to be funded as follows:

Exhibit 3 – 2009/10 Resource Plan (£ million)

Limits	Budget £ million
Cash items	
Operating costs	14.157
Purchase grant	1.300
Non cash items	
Cost of capital	2.508
Depreciation	1.900
Total	19.865

22. NLS is expected to achieve 2% of efficiency savings for 2009/10 and 2010/11. Grant in aid will not be uplifted for pay or general inflation as this is expected to be met from NLS' efficiency savings. NLS has forecast a balanced budget for 2009/10. Delivering efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge for the organisation.

National Studies

23. Audit Scotland published three national studies relevant to the NLS' use of resources. These were the use of consultancy services, improving energy efficiency and improving public sector purchasing.

Use of consultancy services

24. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were as follows:

- The public sector is strengthening the way it buys goods and services.
- Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.
- In most cases, central government buys consultancy services well but some improvements can be made.
- Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.



- Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

25. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff
- gather and share consistent information on the consultancy skills bought and why consultants are used
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
- evaluate the work of consultants more systematically and share findings from these reviews
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

26. NLS does not contribute spending data to the Scottish Government Information Procurement hub and was not one of the case studies. Nonetheless NLS should aim to meet the key recommendations of the report when procuring and managing consultancy services, and to pursue any areas where improvement is identified.

Improving energy efficiency

27. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how



public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. The key findings were as follows:

- Funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented.
- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

28. NLS completed the survey which Audit Scotland issued to councils, NHS bodies and central government bodies.

Improving public sector purchasing

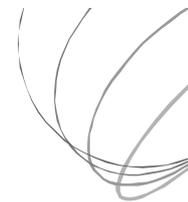
29. Audit Scotland assessed the impact of the Public Procurement Reform Programme (the Programme) which aimed at improving purchasing practice and making savings of about three per cent a year. This included examination of the savings from the Programme and the wider benefits of the Programme. The report noted the following:

- The Programme which is ambitious and challenging has made significant progress but some changes are taking longer than planned to implement and performance measures are largely incomplete.
- Around £327 million has been saved in the first two years of the Programme which is in line with the Programme target however some savings have been delayed and because of limited data it is unclear how progress towards the third year target of £400 million will be monitored.
- Overall the impact of the Programme appears positive however the scale of improvement is difficult to quantify and there are variable levels of engagement by public bodies.
- Key risks to the Programme include maintaining momentum, programme management, availability of information and shortages of skilled staff. These need to be addressed to help accelerate the Programme.

30. NLS collaborates where possible with the Scottish Procurement Directorate (SPD) on appropriate procurement projects to avoid duplication of purchasing effort and routes requirements for generic



goods and services through the Scottish Government framework agreements and collaborative contracts where these are advantageous. NLS also collaborates directly with others in the public sector (for example, National Galleries of Scotland, National Museums of Scotland, Royal Botanic Garden Edinburgh and the Scottish Digital Library Consortium) over the purchase of goods and services which are specific to its needs.



Governance and Accountability

31. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of NLS' arrangements.
32. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

33. This year we reviewed:
 - partnership working
 - key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct
34. Our overall conclusion is that arrangements within NLS are sound and have operated throughout 2008/09.

Partnership working

35. In January 2008, the First Minister issued a statement on *More Effective Government*. It outlined his vision for simplifying the public sector and delivering a reduction in the number of public sector organisations. NLS has been working with National Museums Scotland and the National Galleries of Scotland to develop and implement a shared services programme for the National Collections organisations, with the aim of making best use of resources and working more closely together. The three bodies agreed a joint workplan for five areas of common working which merit further exploration. We will monitor developments.



Systems of internal control

36. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09 Baker Tilly, the internal auditors, provided their opinion that based on their internal audit work undertaken during the year, NLS has an adequate framework of control over the systems examined.
37. As part of our audit we reviewed the high level controls in a number of NLS' systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively and that NLS has adequate systems of internal control in place. We did identify a number of minor areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2009.

Statement on Internal Control

38. The Statement on Internal Control provided by NLS' Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out the NLS' approach to this. The Statement on Internal Control drew attention to the progress NLS has made in addressing the Scottish Government data handling review and includes the appointment of a senior information officer.

Internal Audit

39. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on the NLS' internal audit function. We concluded that Baker Tilly operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

Prevention and detection of fraud and irregularities

40. NLS has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.
41. There were no reported frauds in 2008/09.



National Studies

42. Audit Scotland published one national study, a review of major capital projects, which is relevant to NLS.

Major capital projects

43. This report was the first systematic review of major capital projects in Scotland. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:

- In general, the achievement of cost and time targets improved significantly as projects progressed.
- Early cost and time estimates at project approval stage were too optimistic for many major projects.
- Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer.
- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment.
- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage.
- Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

44. NLS should for any future capital projects ensure that they aim to meet the key recommendations of this report.



Performance

45. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
46. In this section we comment on:
- NLS' corporate plan
 - performance against targets
 - risk management
 - efficiency

Vision and strategic direction

47. NLS published its corporate plan for 2009/12 in July 2009. The plan builds on the three year strategy "Expanding our Horizons" which was agreed in March 2008. There are four key themes: developing the collections, developing the organisation, building relationships and widening access to knowledge. Under each theme there are target outcomes and they are mapped to the Scottish Government priorities. NLS also aims to contribute data to "Scotland Performs" to enable NLS activity to be directly associated with the achievement of national priorities. The delivery of the corporate plan objectives will be particularly challenging given the tight financial constraints. This is an area we will keep under review during our appointment.

Performance overview

48. NLS set performance targets under the four key themes outlined in the paragraph above. Examples of reported achievements against targets include:
- Reader visits to the Library were 1% above target however there was a significant decrease in the number of website users which was mainly due to problems with the website monitoring software.
 - Visitor numbers to events which included the Burns Exhibition exceeded the target by 30%.



49. Senior management team review these indicators on a quarterly basis and each director reports regularly on progress on each of the four strategic core themes through a qualitative report. In 2009/10 these indicators will also be reported to the audit committee on a quarterly basis.

Risk management

50. A corporate risk register which details the most significant risks for the organisation as a whole has been compiled and is reviewed regularly and the results are presented to the audit committee on a biannual basis. In addition operational risk management is delegated to the directors responsible for the five departments of the NLS' operations and departmental and divisional risks are included in the corporate risk register where necessary. The main risks identified by the NLS include:
- Loss and/or damage to the collections
 - Inadequate finances/resources to meet strategic resources
51. For each of the risks in the register there are control measures to manage these key business risks. The challenge for the Board will be embedding a risk aware culture within the organisation for the future management of existing and emerging risks in the medium to long term.

Efficiency

52. In the current three year budget settlement NLS was required to make efficiency savings of 2% per annum for the period 2008/09 to 2010/11. In 2008/09 NLS achieved this target by delivering cash releasing savings totaling £0.270 million. In addition to this NLS achieved non-cash releasing savings of £0.085 million. These will be challenging targets for NLS to achieve in 2009/10 and 2010/11 as 2% represents a considerable sum in relation to NLS' non salary cost base. We will continue to monitor the financial position and the actions taken by the NLS.



Looking Forward

53. NLS faces a number of challenges in 2009/10, which include:

- **Financial management and affordability** – The Scottish Parliament's Finance Committee recently published its report on the Scottish Government budget. The report noted that Scottish Government spending is set to decline in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to NLS achieving its financial targets within tighter funding settlements. We will consider the NLS' financial management arrangements as part of our 2009/10 audit.
- **National Performance Framework** – The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how NLS is addressing this developing area as part of the 2009/10 audit.
- **Efficiencies and future funding** – Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS) particularly on leases and infrastructure accounting. NLS has to achieve 2% efficiency savings per year for 2009/10 and 2010/11. The challenge for NLS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **IFRS** – The timetable for IFRS implementation requires central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. However, the implementation for charities has been deferred and, as yet, the date for shadow accounts has not been settled. These processes will require significant resource to complete and it will be important that these issues are addressed early in 2009/10.
- **Data Handling** – The Scottish Government carried out a review of data handling arrangements in Scotland during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A Scottish Government report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and improved



security of sensitive information. As noted at paragraph 38, NLS has made progress in dealing with information risk. We will monitor NLS' progress against recommendations due to be implemented during 2009/10.

- **Heritage Assets** –The Accounting Standards Board Financial Reporting Standard 30 on heritage assets has significant new disclosure requirements for reporting the content and value of heritage assets. Although the new standard is not mandatory until 2010/11 NLS will need to prepare for a significant impact on the accounts.