

# National Library of Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

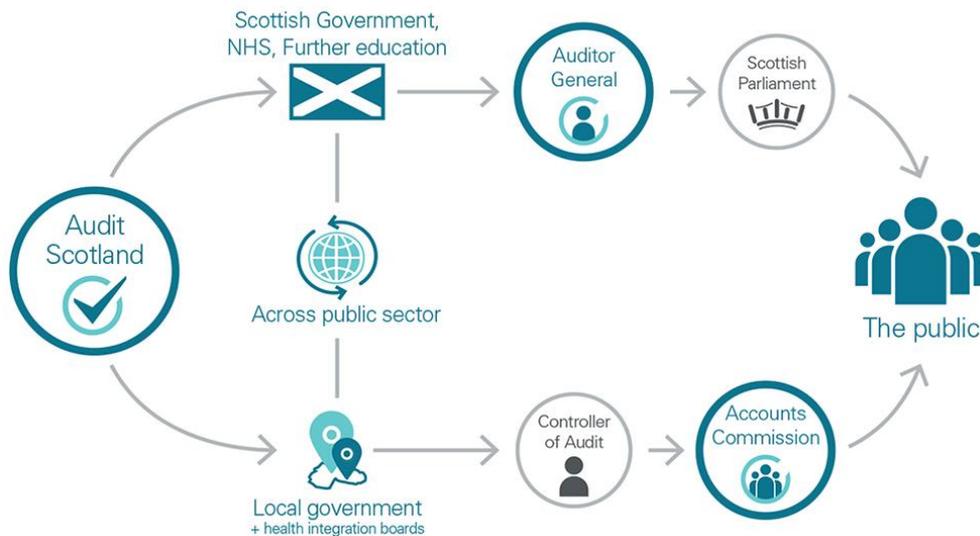
Prepared for the National Library of Scotland and the Auditor General for Scotland

12 August 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual report and financial statements

- 1 The financial statements of National Library of Scotland (NLS) give a true and fair view of the state of affairs of the NLS as at 31 March 2019 and its income and expenditure for the year then ended.
- 2 The information included in the Annual Report of the Board is consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Financial management

- 3 We concluded that NLS has effective arrangements in place for financial management. The Library has maintained a balance of their General Fund of £533,000 as at 31 March 2019. This is a reduction of £7,000 against the prior year's balance, but well above the NLS' minimum level of £200,000.
- 4 Systems of internal control operated appropriately and effectively in 2018/19.

## Financial sustainability

- 5 We have no significant concerns about the overall financial position of NLS, but we noted the Library face budget pressure relating to increased employer pension contributions in 2019/20 and beyond.
- 6 We concluded that NLS has adequate financial planning arrangements in place.

## Governance and transparency

- 7 We concluded that NLS has appropriate and effective governance arrangements in place that support the scrutiny of decisions and is transparent in the way it conducts its business.

## Value for money

- 8 We concluded that NLS has an appropriate and effective performance management framework and the Library's key indicators show an improved trend in performance, with all the targets met in 2018/19.

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# Introduction

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**1.** This report summarises the findings from our 2018/19 audit of the National Library of Scotland (referred to as 'NLS' or 'the Library' throughout).

**2.** The scope of our audit was set out in our Annual Audit Plan presented to the 11 February 2019 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the NLS' 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](#) as illustrated in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

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**3.** The main elements of our audit work in 2018/19 have been:

- an interim audit of NLS's key financial systems and governance arrangements
- an audit of NLS' 2018/19 annual report and financial statements including the issue of an independent auditor's report setting out my opinions
- consideration of the four audit dimensions of public audit.

## Adding value through the audit

4. We add value to the NLS through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- Providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help NLS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. NLS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and financial statements that are in accordance with the accounts direction from the Scottish Ministers. The NLS annual report and accounts includes the following:

- Annual Report of the Board
- Governance Statement
- Financial statements and supporting notes.

7. NLS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.

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.

9. As public sector auditors, we give independent opinions on the annual report and financial statements. Additionally, we conclude on:

- The regularity of income and expenditure
- 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.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. This report raises matters from the audit of the annual report and financial statements and consideration of the audit dimensions. 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.

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

**13.** 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 2018/19 audit fee of £20,810 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to both the NLS 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.

**15.** We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and financial statements



### Main judgements

The financial statements of NLS give a true and fair view of the state of affairs of the Library as at 31 March 2019 and its income and expenditure for the year then ended; and have been properly prepared in accordance with the financial reporting framework.

The expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

The other information in the Annual Report of the Board is consistent with the financial statements and prepared in accordance with the accounting framework.

### Audit opinions on the annual report and financial statements

16. The annual report and financial statements for the year ended 31 March 2019 were approved by the Board on 25 September 2019. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income were regular and in accordance with applicable enactments and guidance issued by Scottish Ministers
- the information given in the Annual Report of the Board and in the Governance Statement is consistent with the financial statements and properly prepared in accordance with legislation and guidance.

17. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

The annual report and financial statements are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

18. We received the unaudited annual report and financial statements on 14/06/2019 in line with our agreed audit timetable.

19. The working papers provided with the unaudited financial statements were of a very good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Whole of Government Accounts (WGA)

20. In accordance with the WGA guidance we plan to complete the required assurance statement and submit to the National Audit Office (NAO) by the 28 September 2019 deadline.

## Risk of material misstatement

**21.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**22.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**23.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

**24.** Our initial assessment of materiality for the annual report and financial statements was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.

**25.** On receipt of the 2018/19 unaudited annual report and financial statements we reviewed our materiality calculations and concluded that they remained largely appropriate – overall materiality reduced by £25,000.

## Exhibit 2 Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.25% of total assets as at 31 March 2019. We have used total assets as the basis for calculating materiality, as a primary function of NLS is to operate as a custodian of public assets. This treatment is in line with ISA 320 and Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom.	£1.475 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£1.1 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£30,000

Source: NLS Annual Audit Plan 2018/19

## Significant findings from the audit in accordance with ISA 260

**26.** 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 covering

accounting policies, accounting estimates and financial statements disclosures. We have no significant issues from our financial statements audit to report to you.

## Other findings

**27.** Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and are now reflected in the final version of the annual report and financial statements.

**28.** Additionally, our work identified two areas of improvement. First, we carried out ownership checks on a sample of the Library's properties and found that NLS along with their lawyers are in the process of confirming title deeds and supporting paperwork with the Scottish government for two properties:

- George IV Bridge with net book value of land and building of £25.3 million
- Sighthill with net book value of land and building of £313,000.



### Recommendation 1

**We recommended NLS and their lawyers follow up on the title deeds position for the Library's properties, since they are material to the financial statements, to ensure appropriate documentation is in place to justify the disclosure of these properties in the financial statements.**

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## NLS Foundation

**29.** As part of our interim audit, we discussed with management to assess NLS' relationship with the National Library of Scotland Foundation. The Foundation is an independent company limited by guarantee, is a separate registered charity and has its own Trustees. The Library makes periodic applications to the Foundation for financial support for specific activities and projects.

**30.** Our review assessed transactions between the two bodies, applicable legislation and relevant accounting standards. We are content that, in 2018/19, NLS did not exercise control over the Foundation, as required by SORP paragraph 24.15. Therefore, we agree with management's decision not to consolidate the Foundation this year in the NLS annual report and financial statements. We will continue to assess the Library's relationship with the Foundation throughout the remainder of our audit appointment.

## How we evaluate misstatements

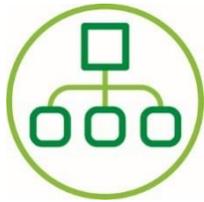
**31.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. There were no material adjustments to the unaudited annual report and financial statements arising from our audit.

## Follow up of prior year recommendations

**32.** We have followed up action agreed in 2017/18 to assess progress with implementation. We have reported progress of this prior year action in [Appendix 1](#). This is identified by the prefix b/f (brought forward).

# Part 2

## Financial management



### Main judgements

**NLS has appropriate and effective arrangements in place for financial management of 2018/19 budget.**

**Systems of internal control operated appropriately and effectively in 2018/19.**

### Financial performance in 2018/19

**33.** The main financial objective for NLS is to maintain a stable and sustainable financial environment. Part of this objective is to maintain an adequate financial outturn for the year, compared to the budget allocated by Scottish Ministers.

**34.** NLS has reported an outturn of £18.210 million (2017/18: £20.445 million) remaining within its overall budget for 2018/19 with an underspend of £0.470 million. The financial performance against Departmental Expenditure Limits (DEL) is shown in [Exhibit 3](#).

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

### Exhibit 3 Performance against DEL in 2018/19

Performance	Final budget £m	Actual outturn £m	Over (under) spend £m
Resource DEL	13.530	12.977	(0.553)
Ring-fenced DEL (non-cash)	3.400	2.899	(0.501)
Capital DEL (includes purchase grant)	1.750	2.334	0.584
<b>Total DEL</b>	<b>18.680</b>	<b>18.210</b>	<b>(0.470)</b>

Source: 2018/19 NLS annual report and financial statements

**35.** The overall £470,000 underspend noted against Total DEL is a balancing figure derived from an overspend of £31,000 in cash terms and an underspend of £501,000 in non-cash terms. The £31,000 overspend is attributable to the following factors:

- Income was £763,000 lower than budgeted, mainly due to carry forward and reserve money not being required, reduced grant income from MG Alba and NLSF money not claimed for the digitisation programme

- Expenses were lower than budgeted by £732,000, mainly due to lower overheads, staff costs and purchases for collections.

**36.** The underspend of £501,000 against ring-fenced DEL relates to depreciation and the difference simply reflects the Library's year-end depreciation charges compared to the slightly larger 'non-cash' allocation received from the Scottish Government.

**37.** Overall, the Library remains in good financial health. The General Fund has seen a small decrease over the year and moved from £540,000 at the end of March 2018 to £533,000 at the end of March 2019 which is a decrease of £7,000. This balance is well above the £200,000 target set by the Board.

## 2018/19 financial position

**38.** The Balance Sheet summarises what is owned and owed by NLS. The Balance Sheet shows that NLS:

- has net assets of £116.074 million an increase of £1.098 million largely attributable to increased valuations in financial investments and additions to heritage assets
- creditors amounts falling due within one year decreased by £0.803 million and the balance is comfortably covered by the cash at bank and in hand.

## Budgetary processes

**39.** We reviewed NLS' budget setting and monitoring arrangements. From our review of budget monitoring reports, review of committee papers and attendance at Audit Committees we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

**40.** We concluded that NLS has effective budgetary processes that allow members and officers to carry out effective scrutiny of its finances.

## Systems of internal control

**41.** 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 NLS has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**42.** Our interim work in February 2019 reviewed the following key financial systems:

- General Ledger
- Creditors
- Debtors
- Payroll
- Cash and Bank

**43.** We confirmed our understanding of the key controls, carried out walkthroughs of each and concluded that they are suitably designed to detect and/or prevent risk of material misstatement. No significant internal control weaknesses were identified during the audit which could affect the Library's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

## Standards of conduct for prevention and detection of fraud and error

**44.** NLS are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

**45.** We have reviewed the arrangements in place to maintain standards of conduct including the Code of Conduct for Staff, Contractors and Volunteers and Gifts, Fees, Hospitality, Bribery and Corruption Policy. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.

**46.** We have concluded that NLS has appropriate arrangements in place 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.

## National Fraud Initiative

**47.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity. NFI activity is summarised in [Exhibit 4](#).

### Exhibit 4 NFI activity



145

**Matches**



20

**Recommended for  
investigation**



145

**Completed/closed  
investigations**

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

**48.** In summary, NLS has been pro-active in completing investigation work, with all data matches reviewed by the end of June 2019. No outcomes have been reported as a fraud or an error in this exercise. There were 145 matches identified in total, 20 of which were recommended for investigation (including 18 creditors matches with risk score of 75% or over and 2 payroll matches with high risk score). All outcomes were recorded on the NFI secure website with brief comments provided to support each conclusion.

**49.** Based on our work on the 2018/19 NFI exercises, we concluded that management should review the NFI self-appraisal checklist shared with all the audited bodies participating in the NFI exercise and report the outcome to the Audit Committee. This will give the Audit Committee members an opportunity to consider if the NFI arrangements in place at NLS are appropriate.



## Recommendation 2

**We recommend that management should review the NFI self-appraisal checklist to ensure they are satisfied with the arrangements in place to carry out the NFI exercise and report the outcome to the Audit Committee.**

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**50.** We concluded that NLS is committed to the NFI exercise which is demonstrated by the timely uploading of data submitted to the NFI team, and the quick investigation work which has seen all 145 NFI matches processed.

### Dependency on key suppliers

**51.** The impact of a failure or collapse of a key supplier can be significant to an organisation and can result in either delays or non-completion of major contracts or, disruptions in the continued provision of vital services. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions.

**52.** We have considered this risk during our 2018/19 audit work but have not identified any key supplier dependencies for NLS that we should report to you. We also note that a supply chain risk is include on the NLS Strategic Risk Register and management intend to carry out work in 2019/20 and beyond to identify if dependencies on key suppliers for day-to-day operations exist.

# Part 3

## Financial sustainability



### Main judgements

**NLS has appropriate and effective financial planning arrangements in place.**

**NLS will face a challenge of funding increased employer pension contribution costs in the future.**

### Financial planning

**53.** NLS published its 2019/20 Library Plan, including budget, which was presented to the Board meeting in March 2019. Grant in Aid from the Scottish Government (SG) remains the Library's main source of income (89%) with a resource allocation of £15.480 million which is £0.200 million (1%) more than the 2018/19 budget allocation. This is made up of £13.730 million for its revenue budget and £1.750 million for its capital budget. The budget does not include additional funding of £0.475 million from the SG allocated in a revised Grant in Aid letter received by NLS in July 2019 to cover 80% of the increase in employer pension contribution costs. Similar to other central government bodies, the SG do not guarantee funds to cover the increase in pension contribution costs beyond 2019/20 and the Library face challenge to cover this increase in future years.

**54.** The 2019/20 budget also includes £1.863 million of other income; such as other grant income, donations, fundraising and earned income from services and rents. The 2019/20 budget shows an overall balanced position, with total expenditure projected to be £17.343 million to match total income.

**55.** Management have acknowledged there are some risks and challenges with the Library's 2019/20 financial plans and beyond, mainly due to the following risk factors:

- Potential reduction in Grant in Aid funding
- Increases in employers pension contribution rates without an equal increase in funding (as mentioned above)
- Changes in future SG pay policies
- Deferred maintenance
- Britain's withdrawal from the European Union
- The ability to generate sufficient income from other sources to support the Library's strategy
- Management of running Heritage Lottery Fund grant programme.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

## Changing landscape for public financial management and medium to long term financial planning

**56.** Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for some social security benefits. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater uncertainty and complexity

**57.** A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. As part of the new budget process, the Scottish Government published an initial five-year Medium-Term Financial Strategy (MTFS) in May 2018. The five-year outlook for the Scottish budget, set out in the MTFS, provides useful context for bodies' financial planning.

**58.** We reviewed the financial planning systems of NLS and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**59.** As noted previously we recognise that NLS is mainly funded from SG budget allocation through Grant in Aid and this is determined on an annual basis by the SG. This should not preclude NLS from preparing medium to long term financial plans using sensitivity analysis and scenario planning for possible budget changes.

**60.** The 2019/20 budget sets out efficiency savings which need to be achieved to balance the budget. During 2019/20 the Library plans to make efficiencies or raise extra income totalling over £250,000 (approximately 1.5% of the revenue Grant in Aid). These savings will be invested into operational activities to help the Library to continue delivering its service requirements.

**61.** The Library plans to achieve this savings target in 2019/20 through a combination of the following actions:

- Generate additional income from external sources (in addition to SG funding) and ensuring there is full cost recovery across services
- Manage services in 2019/20 so efficiency savings are generated across all areas, particularly in relation to investment in the Library Services Platform and delivering savings from service reviews
- Constrain cost growth through effective demand management, good financial control by managers, and effective negotiation with suppliers.

**62.** Savings will be crucial in maintaining financial balance over the coming years. The Library Plan sets out budgets for the next three financial years. From these forecasts it is clear that the Library, like all public sector bodies, faces financial challenges going forward due to uncertainties over future funding allocations.

**63.** The Library Plan sets out three broad types of scenarios which are possible - positive, neutral and negative scenarios. A neutral scenario assumes that Scottish Government funding will remain fixed beyond 2019/20, but with ongoing pay restraint. Based on this neutral scenario, the Library would generate a deficit in 2020/21 of £113,000, and of £342,000 in 2021/22.

**64.** Overall, we conclude that adequate financial plans are in place for the Library over the medium term. The delivery of balanced budgets in the coming years will depend on significant efficiencies being achieved. For this reason, a new approach will be trialled in relation to efficiency savings for 2020/21 and beyond which will give Associate Directors efficiency targets to achieve and report on quarterly. Despite the challenges laying ahead, the Library is proactive in planning appropriate arrangements are in place to cope with the financial sustainability pressures in coming years.

**65.** NLS is transparent in acknowledging that it is facing several significant financial challenges, and this is included in the Annual Report.

## EU Withdrawal

**66.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**67.** The departure of the UK from the EU has been recognised as a potential risk by the Library since the initial vote in 2016. NLS set up a Brexit Monitoring Group (BMG), which considers impact of EU withdrawal on the Library's operations. The Group provide regular updates to the Board and in the staff newsletters. Risks arising from the Brexit are recognised on the NLS Strategic Risk Register in two areas: 'loss or interruption of service' and 'failure to effectively manage and engage staffing resources'.

**68.** Additionally, a Brexit position update paper presented to the Audit Committee in November 2018 considered Brexit related risks in the above mentioned three broad areas, with supply chain identified as fourth area.

**69.** In our opinion NLS was well prepared for the EU withdrawal at the 31 March 2019. Despite significant uncertainties as to the Brexit outcome, the Library have committed an appropriate level of time and resources to consider risks for the Library and arrived at the conclusion that Brexit-related risks are manageable.

**70.** Since then the UK received an extension until 31 October 2019 and the NLS BMG continues to consider any developments and new risks in this area.

# Part 4

## Governance and transparency



### Main judgements

**NLS has effective governance arrangements in place that support the scrutiny of decisions made by the Board.**

**NLS is open and transparent in the way it conducts its business.**

**NLS face challenges to meet the requirements of the Cyber Resilience Action Plan.**

### Governance arrangements

**71.** The National Library of Scotland Act 2012 confirmed the Library's general function as 'a national resource for reference, study, research and bibliography, having particular regard to Scotland'. The Act also modernised the make-up and responsibilities of the Board. There are 12 members plus an appointed Chair on the Library's Board. All Board members are appointed by the Scottish Ministers.

**72.** The role of the Board is to provide leadership, direction, support and guidance to ensure the Library delivers and is committed to delivering its functions effectively and efficiently and in accordance with the aims, policies and priorities of the Scottish Ministers<sup>1</sup>. The Board is supported in its governance role by the following committees:

- Audit Committee
- Governance Committee
- Staffing and Remuneration Committee.

**73.** This committee structure is unchanged from last year. The Audit Committee and the Staffing and Remuneration Committee have delegated responsibility for certain matters under the Scheme of Delegation. In addition, the Governance Committee has continued to consider appropriate ways to improve governance of the Library.

**74.** Responsibility for delivering the Strategy and Operational objectives is devolved to the National Librarian, supported by the Library Leadership Team. The National Librarian is also the Chief Executive of the Library and the Accountable Officer for the use of public resources.

**75.** From our attendance at Audit Committees, we note that committee papers are well prepared in advance of each meeting, and sufficient time is made available at each meeting to allow appropriate discussion of each item on the agenda.

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

<sup>1</sup> Framework Document between the Scottish Government and the National Library of Scotland

Committee members are well-prepared and provide effective scrutiny and oversight.

**76.** Last year, we prepared a separate paper for members which set out Audit Committee good practice which was presented at the Audit Committee meeting in August 2018. We conclude the NLS Audit Committee is currently applying appropriate and effective governance and benchmark well against other organisations.

## Openness and transparency

**77.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports 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.

**78.** The Library's Board meetings are held in private. Board minutes are published on the Library's website and papers are available on request. We consider these arrangements to be satisfactory.

**79.** NLS has a well-established complaint handling procedure in place which remained unchanged since last year and is deemed appropriate.

**80.** A variety of information about the Library, the Board and its corporate governance arrangements are available on the NLS website. The Library also engage with members of the public via social network channels and a regular NLS blog. Overall, we concluded that NLS conducts its business in a transparent and open manner.

## Internal audit

**81.** During 2018/19 financial year, the internal audit function was carried out by Henderson Loggie. As Henderson Loggie are the internal auditors for a number of shared clients with Audit Scotland, we completed a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). This review, completed by our Audit Services Group in December 2018, concluded that Henderson Loggie's policies and practices are compliant with the PSIAS.

**82.** We also completed a local review of internal audit arrangements for NLS and have concluded these arrangements to be satisfactory. Henderson Loggie issued their Internal Audit Charter to the Audit Committee in 2018. This Charter is a PSIAS requirement which sets out the purpose, authority and responsibility of internal audit. It is good practice for this Charter to be refreshed and approved by the Audit Committee periodically.

**83.** Based on our review of internal audit reports, we considered their findings closely, particularly the results of their key financial controls review. This review provided an overall 'Good' conclusion and did not identify any control weaknesses. As we focused our external audit on substantive testing this year, we have not placed formal reliance on the work of internal audit to support our audit opinion on the financial statements.

**84.** We noted that NLS has recently appointed BDO LLP for the provision of internal audit services for initial period of three years from 2019/20. It is our intention to build good working relationship with the new internal auditors and collaborate to provide the highest standard of audit services to the Library.

## Governance Statement

**85.** Under the Treasury's Financial Reporting Manual (FRoM), NLS must prepare an annual governance statement within its annual report and financial statements.

Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.

**86.** The SPFM does not prescribe a format for the annual governance statement but sets out minimum requirements for central government bodies. The Library's assurance process included senior officers in the Library Leadership Team providing the Accountable Officer with signed Certificates of Assurance and internal control checklists. These signed statements and checklists provide the Accountable Officer with additional assurance over the adequacy and effectiveness of the systems of internal control which operate in each of the officer's departments.

**87.** We concluded that the 2018/19 governance statement complies with the guidance issued by the Scottish Ministers and, based on our knowledge and work performed, presents a comprehensive picture of governance arrangements and key matters.

## Cyber security

**88.** 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 their cyber security arrangements are appropriate.

**89.** In our 2017/18 Annual Audit Report, we included a recommendation relating to cyber security and recommended that NLS' IT department should continue to take remedial actions to ensure achievement of Cyber Essentials Plus (CEP) accreditation by October 2018, as per requirements of the Cyber Resilience Action Plan. The Library was successful in gaining Cyber Essentials basic accreditation before the deadline and is currently working towards CEP with no clear target date at this point. This is due to a few reasons:

- Need to update outdated IT infrastructure which is about to go out of formal support over the next few months
- One vacancy in the IT infrastructure team
- Other infrastructure risks of higher priority, e.g. dated telephony system, some of which will need to be dealt with in order to achieve the CEP accreditation.

**90.** Therefore, our prior year recommendation remains relevant.



### Recommendation 3 (b/f)

**We recommend the IT department continue to take remedial action to manage IT risks and set a clear target date for achievement of Cyber Essentials Plus accreditation.**

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## Good practice

**91.** The [Code of Audit Practice 2016](#) encourages auditors to identify good practice which in their opinion is worth sharing more widely. We consider content of the Board papers as an area of good practice for NLS when benchmarked against other similar organisations. Good quality of the Board papers allows the members to scrutinise performance effectively. The National Librarian's report is particularly extensive and provides a good overview of key activities of the Library. Other useful reports are the Library Plan quarterly updates (including a dashboard to clearly show performance against indicators) and the quarterly finance reports.

# Part 5

## Value for money



### Main judgements

**NLS has a well-developed performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.**

**The Library's key indicators show an improved trend in performance, with all the targets met in 2018/19.**

### Best value - Equality

**92.** *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.

**93.** The guidance identifies two cross-cutting themes which a Best Value organisation should fully embrace across all the activities by which they deliver their outcomes. These cross-cutting themes are: equality and sustainability. Per our *2018/19 Guidance on planning the audit* there is an increasing expectation that equalities will be advanced through the audit process and we are required to consider this area at least once during the five-year audit appointment.

**94.** Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified, we may, in conjunction with NLS agree to undertake local work in this area.

**95.** After consultation with the management, we carried out audit work in this area during 2018/19. We concluded that NLS is committed to delivering and promoting equal opportunities. Sufficient number of policies and processes are in place where this is evidenced, and the Library's internal and external engagements give appropriate consideration to and promote equality and we consider this an area of good practice at the Library.

Value for money is concerned with using resources effectively and continually improving services.

### Performance management

**96.** NLS included their objectives in the 2018/19 Library Plan. This Plan sets out activities and objectives, which are linked to the Library's strategy, to be achieved in the financial year. For 2018/19, the Plan comprised a total of 20 key activities to help the Library achieve its 6 strategic priorities. Among a range of performance measures, the Plan includes metrics on the number of items to be converted to a digital format, reducing items held in Hidden Collections, exhibition visitors, website visits and staff absence rates. The Library Leadership Team (LLT) and Board have monitored the achievement of these objectives by using 15 Key Indicators in 2018/19. We have summarised the Library's performance against these Key Indicators in [Exhibit 5](#). This includes prior year comparators where available.

**97.** Key activities completed in relation to the 2018/19 Library Plan include:

- Beginning the 'Unlocking our Sound Heritage' project in partnership with the British Library and 10 centres
- Increasing digital production from 100k items to 200k items
- Various projects relating to the Year of Young People
- Internal refurbishment work on the George IV Bridge building which includes bringing the South Reading Room back into use and a new Treasures space
- Replacing Library Service Platform which will bring a range of user benefits such as being able to search across all the Library's collections in one search.

**98.** The Board is kept well informed of performance across all areas of the Library's activity. On a quarterly basis the results of progress with the Plan and performance against the Key Indicators are reported to the Board. The Key Indicators are reported using a Corporate Dashboard which provides members with a clear summary on the Library's performance and supporting comments where there have been changes. The Corporate Dashboard is reviewed regularly by the LLT and, where necessary, actions are agreed to keep the Plan on track.

**99.** We attend Audit Committees and review both Audit Committee and Board papers received by members to gain an insight into how well performance is scrutinised.

**100.** We concluded that NLS has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

## Overview of service performance

**101.** Included in the 2018/19 annual report and financial statements is the narrative section 'Annual Report of the Board'. This section provides a good summary of the Library's financial and non-financial performance for the year, including commentary on performance against the Key Indicators set for 2018/19.

**102.** We reviewed the main performance indicators used by NLS and trends over the past four years period and have summarised these in [Exhibit 5](#).

## Exhibit 5 NLS Key performance indicators – trend analysis

	2015/16	2016/17	2017/18	2018/19
1. Environmental compliance	● 99.4%	● 98.7%	● 99.0%	● 98.3%
2. Percentage reduction in Hidden Collections	● 0%	● 2.7%	● 7.2%	● 10.3%
3. Percentage of collections available in digital format	● 5.5%	● 11.8%	● 13.9%	● 19%
4. Number of research collaborations	● 13	● 20	● 36	● 47
5. Reading Room visits	● 63,291	● 69,392	● 68,787	● 63,340

	2015/16	2016/17	2017/18	2018/19
6. On-site learning & community events/ Outreach learning & community events/	Information not available	● 301	● 371	● 405
7. Exhibition visitors	● 118,251	● 132,063	● 118,950	● 51,398
8. Website usage (web sessions)	● 3.5 million	● 4.1 million	● 5.1 million	● 5.4 million
9. Physical collections capacity	Information not available	Information not available	Information not available	● 22,963
10. Staff absence rate (days per employee)	● 8.3	● 6.2	● 6.7	● 7.4
11. Percentage raised against Fundraising target	● 87%	● 63%	● 91%	● 185%
12. Central support costs as a percentage of income	● 3.6%	● 5.2%	● 8.4%	● 9.0%
13. Growth in Collections	Information not available	Information not available	● 1.052 million	● 2.40 million
14. Availability of non-print legal deposit access	Information not available	Information not available	● 99.0%	● 100%
15. Staff engagement	Information not available	Information not available	● 66%	● 70%

Source: NLS Annual Report and Financial Statements 2016/17, 2017/18 and 2018/19

**103.** We note that there has been improvement across several key indicators (in 9 out of the 15 indicators) in 2018/19 compared to the previous year. The fundraising target is a particular area of improvement. Performance indicators for central support costs as a percentage of income remains steady and as noted previously, sickness absence rate is one which management should monitor.

**104.** We also noted a few changes to the indicators from prior year, namely: no.6 was split in prior year and shown as school/lifelong learning workshops and number of public engagements/events attendees; physical collections capacity is a new indicator so there are no prior years comparisons; and lastly no.12 has seen change to the basis of calculation between the years and figures are not directly comparable.

## National performance audit reports

**105.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. In 2018/19 several reports were published which are of interest to NLS. These are outlined in [Appendix 3](#).

**106.** The Audit Committee receives updates on Audit Scotland national reports which are considered relevant to the Library. Recent national reports were summarised within the quarterly Finance Report presented at the May 2019

meeting. Recently published reports which concern Central Government bodies include:

- [Good Practice Note on Performance Report](#) – February 2019
- [Withdrawal from the European Union](#) – October 2018
- [Scotland's New Financial Powers](#) – October 2018

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Title Deeds</b></p> <p>NLS does not currently have clear title for two of the properties (GIVB and Sighthill) included on the Balance Sheet. There is a risk that NLS do not have appropriate supporting documentation justifying ownership and disclosure of these properties in the Library's financial statements.</p>	<p>We recommend that NLS and their lawyers follow up on the title deeds position for the Library's properties, since they make up majority of the tangible assets balance.</p> <p>Paragraph 28</p>	<p><b>Agreed action:</b></p> <p>Given the complexities of the site, the Scottish Government is dealing with the voluntary registration of George IV Bridge. Along with our lawyers are following the progress of this.</p> <p><b>Responsible officer:</b></p> <p>Director of Business Support</p> <p><b>Agreed date:</b></p> <p>March 2020</p>
2	<p><b>NFI self-appraisal checklist</b></p> <p>NFI is an important exercise which help participating bodies to identify instances of fraud. Each body should give appropriate consideration to the exercise (e.g. by considering the data sets it submits) and devote enough time and resources to complete investigative work.</p>	<p>We recommend that management should review the NFI self-appraisal checklist before the next NFI exercise, to ensure they are satisfied with the current arrangements in place to carry out the NFI exercise effectively and efficiently, and report the outcome to the Audit Committee.</p> <p>Paragraph 47-50</p>	<p><b>Agreed action:</b></p> <p>This will be reviewed the next time NFI returns are due</p> <p><b>Responsible officer:</b></p> <p>Director of Business Support</p> <p><b>Agreed date:</b></p> <p>Next NFI exercise 2020/21</p>

### Follow up of prior year recommendations

b/f	<p><b>Cyber security</b></p> <p>NLS face challenges to update its IT infrastructure and processes to meet the requirements of the Cyber Resilience Action Plan, which has a deadline of October 2018.</p>	<p><b>Agreed action (August 2018):</b></p> <p>We recommend the IT department continue to take remedial action to manage IT risks and set a clear target date for achievement of Cyber Essentials Plus accreditation.</p> <p>Paragraph 88-90</p>	<p><b>Revised action:</b></p> <p>The IT teams will continue to work towards gaining Cyber Essentials Plus accreditation by, or soon after, March 2020 as possible. This will include staff training of both IT staff and general staff as appropriate.</p> <p><b>Responsible officer:</b></p>
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**No. Issue/risk**



**Recommendation**



**Agreed management action/timing**

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Associate Director of Digital

**Agreed date:**

March 2020

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# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the 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 annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates and accounting policies.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>We tested a sample of journal entries and agreed to source documentation. There were no issues to report.</p> <p>We reviewed accounting policies in the financial statements. We have deemed these to be appropriate for NLS.</p> <p>We carried out testing of creditors and debtors' balances to ensure they were posted to the correct financial year. There were no matters to report.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>NLS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, 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>	<p>Analytical procedures on income and expenditure streams.</p> <p>Detailed substantive testing of income and expenditure focusing on the areas of greatest risk.</p> <p>Audit work on the National Fraud Initiative data matches.</p>	<p>Sample testing of income and expenditure transactions was satisfactory.</p> <p>We assessed the controls in place for both income and expenditure recognition and undertook substantive testing of material year end balances focusing on external income transactions. No issues were identified, and we were able to conclude that controls were operating effectively.</p> <p>NLS are pro-active in investigation of data matches and no fraud or error has been found in the latest exercise.</p>
<p><b>3 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the measurement and valuation of material account areas of fixed assets and accruals. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Focused substantive testing during the financial statements audit of key areas.</p> <p>Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</p> <p>Review of the valuer's credentials to ensure</p>	<p>Our testing of both fixed assets and accruals did not identify any significant issues.</p> <p>The Library's annual leave accrual has been calculated in line with technical guidance and included all the required pay elements which provides a more</p>

Audit Risk	Assurance procedure	Results and conclusions
	indexation factors applied to fixed assets are from a reliable source.	accurate estimation of NLS liability at year-end.  We are satisfied that the external valuer has the necessary qualifications to provide indexation factors, and the Library's valuation of fixed assets is reasonable.

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

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#### 4 Financial sustainability

NLS, similar to other public sector bodies, face challenges and uncertainty over future funding allocations. The main financial target for NLS is to maintain a stable and sustainable financial environment and adequate financial outturn for the year, compared to the budget allocated by Scottish Ministers. NLS are projecting to achieve a small deficit for financial year 2018/19 to reduce the balance in their General Fund but maintain it above the required £200,000.

Although NLS are on course to meet its financial target in 2018/19, the organisation continues to face a risk over its financial sustainability in the coming years due to uncertainty over future funding allocations and income sources.

Communicate closely with senior finance staff regarding budget plans and finance reports.

Focused cut off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.

We reviewed NLS' budget setting and monitoring arrangements and concluded that NLS has effective budgetary processes that allow members and officers to carry out effective scrutiny of its finances.

Our cut off testing of a sample of income and expenditure did not raise any issues.

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# Appendix 3

## Summary of national performance reports 2018/19

		 <b>2018/19 Reports</b>	
Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

### Central Government relevant reports

[Scottish Fire and Rescue Service: an update](#) – May 2018

[Scotland's colleges 2018](#) – June 2018

[The National Fraud Initiative in Scotland 2016/17](#) – July 2018

[Forth Replacement Crossing](#) – August 2018

[Major project and procurement lessons](#) – August 2018

[Superfast broadband for Scotland: further progress update](#) – September 2018

# National Library of Scotland

## 2018/19 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](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)