

# National Library of Scotland

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

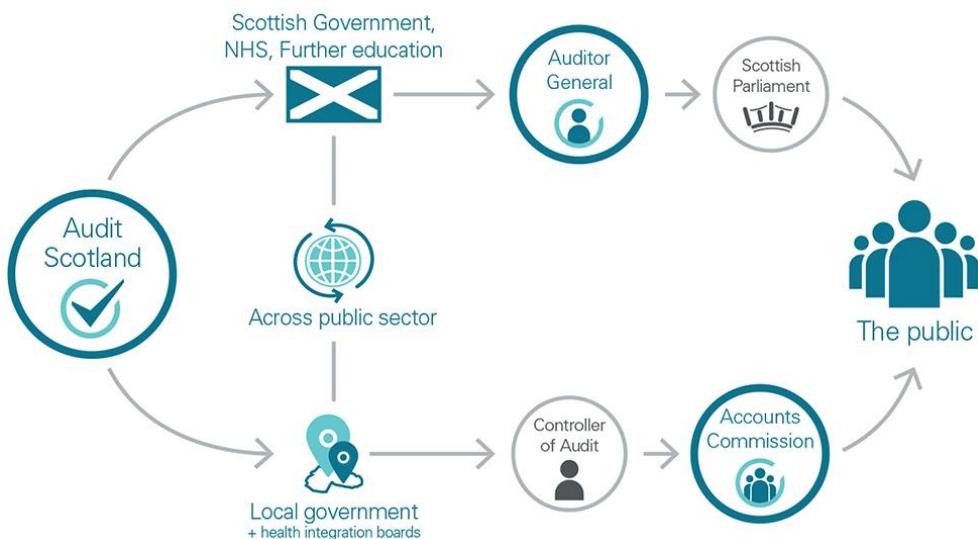
Prepared for National Library of Scotland

January 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to the National Library of Scotland (referred to as 'NLS' and 'the Library' throughout) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Library promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with management, attendance at Audit Committee meetings and a review of supporting information we have identified the following main risk areas for NLS. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<b>1 Risk of management override of controls</b>  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.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates and accounting policies.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<b>2 Risk of fraud over income and expenditure</b>  NLS receives income and donations from various sources, in addition to Scottish Government funding. The extent and complexity of income	Effective budget monitoring by management.  Internal audit coverage.	<ul style="list-style-type: none"> <li>• Analytical procedures on income and expenditure streams.</li> <li>• Detailed testing of income and expenditure transactions</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
means that, in accordance with ISA240, 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.	Fraud Response Policy, Bribery and Corruption Policy and Whistleblowing Policy in place.  Participation in the National Fraud Initiative.	focusing on the areas of greatest risk.  • Audit work on the National Fraud Initiative data matches.
<b>3 Estimation and judgements</b>  There is a significant degree of subjectivity in the measurement and valuation of the material account areas of fixed assets and accruals. This subjectivity represents an increased risk of misstatement in the financial statements.	Effective budget monitoring by management.  Regular reporting to the Board, Audit Committee and Library Leadership Team.  Indexation factors for the valuation of the Library's land and buildings are applied in the years where a full revaluation is not undertaken.	• Focused substantive testing during the financial statements audit of key areas.  • Review of accounting policies to ensure these are reasonable and in line with the accounting framework.  • Assessment of indexation factors applied to fixed assets to ensure these are from a reliable source.
<b>Wider dimensions risks</b>		
<b>4 Financial sustainability</b>  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.	Effective budget monitoring by the finance team.  Regular financial reporting to the Board and Audit Committee.  Ongoing communication with the Scottish Government sponsor division.  A 3-year financial forecast is produced by the finance team.	• 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.

## Wider dimensions risks

5. We have noted that the target date of end of October 2018 for achieving Cyber Essentials Plus accreditation was missed. This issue is mitigated by the fact that the Library achieved Cyber Essentials basic accreditation in October 2018, which is in line with the Public Sector Action Plan, and is currently working toward the Plus accreditation without a set, formal target date. We will continue to monitor the ongoing work in this area.

**6.** Per Audit Scotland's Guidance on Planning the Audit 2018/19, the following areas are considered to be risk areas for all audited bodies in 2018/19:

- EU withdrawal
- Changing landscape for public financial management
- Dependency on key suppliers
- Openness and transparency.

**7.** We will consider these risks in the context of NLS during our audit work and ongoing risk assessment, and report any relevant findings in our Annual Audit Report.

## Reporting arrangements

- 8.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk), after the Library's annual report and financial statements have been laid before the Scottish Parliament.
- 9.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the management to confirm factual accuracy.
- 10.** We will provide an independent auditor's report to NLS, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and financial statements. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.
- 11.** Under the Public Finance and Accountability (Scotland) Act 2000 there is a requirement for the resource account of the Scottish Government to be presented to Parliament within nine months of the financial year – end, i.e. 31 December.

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## Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	28 February 2019	11 February 2019
Annual Audit Report	31 October 2019	12 August 2019
Independent Auditor's Report	30 September 2019	25 September 2019 <i>(Board approval)</i>

Source: Audit Scotland

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## Audit fee

- 12.** The audit fee for the 2018/19 audit of National Library of Scotland is £20,810 [2017/18: £20,410]. In determining the audit fee we have taken account of the risk exposure of the Library, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and financial

statements for the year ended 31<sup>st</sup> March 2019, with a complete working papers package on 18 June 2019.

13. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit Committee and Accountable Officer

14. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.
15. The audit of the annual report and financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

16. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.
17. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**18.** The financial statements audit will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of National Library of Scotland and the associated risks which could impact on the financial statements
- confirming the operation of key controls within each of the NLS key financial systems through walkthrough testing
- identifying major transaction streams, balances and areas of estimation and understanding how NLS will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the state of affairs of NLS and its income and expenditure for the year ended 31<sup>st</sup> March 2019;
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements for charitable bodies;
- the regularity of the expenditure and income.



## Other information in the annual report

**20.** We also review and report on other information published within the annual report including the governance statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

## Materiality

**21.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**22.** We calculate materiality at different levels as described below. The calculated materiality values for the Library are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning 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 for the year ended 31 March 2018 based on the latest audited accounts. 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.	£1.5 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 more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£30,000

Source: Audit Scotland

## Timetable

23. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Financial statements timetable

Key stage	Date
Latest submission date of unaudited annual report and financial statements with complete working papers package	18 June 2019
Date for final clearance meeting with Associate Director of Business Support	28 June 2019
Agreement of audited unsigned financial statements; Issue of Annual Audit Report to those charged with governance	29 July 2019
Presentation of our Annual Audit Report to the Audit Committee	12 August 2019
Approval of the National Library of Scotland annual report and financial statements by the Board; Independent auditor's report signed	25 September 2019

## Internal audit

24. Internal audit is provided by Henderson Loggie. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

- 25.** As Henderson Loggie are the internal auditors for a number of shared clients with Audit Scotland, we have 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.
- 26.** We will also complete a local review of internal audit arrangements for NLS and internal audit plans. We intend to consider closely the results of their key financial controls review. As we intend to focus our external audit on substantive testing we will not place formal reliance on the work of internal audit to support our audit opinion on the financial statements. We will report any significant findings to Audit Committee in due course.

## National Fraud Initiative (NFI)

- 27.** NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
- 28.** The current data matching exercise collected data in October 2018. Match investigation work is currently underway and participating bodies expect results at the end of January 2019. Over the past two years of our audit appointment we reported that NLS is committed to the NFI exercise and has been pro-active in investigating data matches. No cases of fraud or error have been found to date. We are due to submit an audit questionnaire by the end of June 2019 to report on the Library's NFI progress. We will report any further findings to the Audit Committee in due course.

## Whole of Government Accounts

- 29.** The Code of Audit Practice requires appointed external auditors to review and report on whole of government accounts (WGA) returns prepared by audited bodies. External auditors of Central Government entities are required to certify 2018/19 WGA returns, as in prior years. We do not expect NLS to be within the boundary determined by HM Treasury for WGA for the 2018/19 year. We will, however, monitor this position throughout the year and report accordingly following the year end.

## Audit dimensions

- 30.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

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### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

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#### Financial sustainability

- 31.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as short term (up to two years), medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether NLS can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

- 32.** We mentioned in prior years that NLS face challenges regarding its financial sustainability, as recognised in the Library's Strategic Risk Register. This, in common with all Scottish public sector bodies, is due to the nature of the funding arrangement with the Scottish Government which is settled annually. NLS also relies on additional income to achieve its financial targets each year. Therefore a priority NLS face is continuing to ensure additional income sources are managed effectively. NLS has a budget plan in place for 2019/20 with good allocation of capital expenditure money. The Scottish Government draft budget for 2019/20 was announced in December 2018, which will allow management to revise their plans accordingly.

- 33.** Looking beyond 2019/20, there is a concern that NLS may face a more challenging budget if the Scottish Government continue to only offer incremental increase to Grant-In-Aid funding. In addition, the public sector pay cap was lifted in 2018/19 and similar arrangements will continue into 2019/20. In summary, the Scottish Government Draft Budget 2019/20 sets out the following in relation to public sector pay; the Budget will:

- a three per cent pay rise for all earning less than £36,500
- cap the pay bill at two per cent for all those between £36,500 and £80,000; and
- limit the maximum pay uplift for those earning over £80,000 to £1,600.

**34.** NLS will need to consider the impact of these pay increases for its employees and factor this into future budgets and savings plans.

### **Financial management**

**35.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether NLS has arrangements in place to ensure systems of internal control are operating effectively
- whether NLS can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how NLS has assured itself that its financial capacity and skills are appropriate
- whether NLS has established appropriate and effective arrangements for the prevention and detection of fraud and corruption
- how NLS meets the requirements of the National Fraud Initiative.

### **Governance and transparency**

**36.** 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.

**37.** NLS has a number of governance documents in place, including Financial Regulations, Standing Orders and Scheme of Delegation which form key part of good governance arrangements. These are reviewed biennially with the latest review dated September 2017. The documents provide good coverage of the Library's operations, are clear and easy to follow and are an example of good governance practice.

**38.** During our 2017/18 audit work, we reviewed NLS Audit Committee arrangements in place and concluded that the committee is currently applying effective governance arrangements and benchmark well against other similar organisations. This was presented in a good practice paper submitted to Audit Committee meeting in August 2018.

**39.** Additionally, we will continue to review, conclude and report on:

- whether NLS can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### **Value for money**

**40.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- NLS can provide evidence that it is demonstrating value for money in the use of its resources
- NLS can demonstrate that there is a clear link between money spent, output and outcomes delivered
- NLS can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

### **Best value**

- 41.** Best Value (BV) duties apply across the public sector. For sectors other than local government, the Scottish Public Finance Manual (SPFM) explains that accountable officers have a specific responsibility to ensure that arrangements have been made to secure BV.
- 42.** There is an expectation that equalities will be reviewed through the audit process. Auditors should aim to consider this area at least once during their audit appointment. We will consider when is the best time to carry out this work and report back to the Audit Committee in due course.

### **Independence and objectivity**

- 43.** Auditors appointed by the Auditor General and Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.
- 44.** The engagement lead (i.e. appointed auditor) for the National Library of Scotland is Asif A Haseeb. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of National Library of Scotland.
- 45.** The core audit team remains the same as last year. In 201819, Wojciech Kuzma (exam qualified CA) will be the lead auditor and main point of contact.

### **Quality control**

- 46.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.
- 47.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.
- 48.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# National Library of Scotland

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