

# National Library of Scotland

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for National Library of Scotland

February 2021

## 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

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1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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.
3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
4. Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


5. 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

6. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following significant risk for the Library. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Although we have not identified any specific risks of management override of control at the Library, Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<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>
<p><b>2 Risk of material misstatement caused by fraud in income and expenditure recognition</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 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.</p>	<p>Effective budget monitoring by management and the board.</p> <p>Internal audit coverage.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income and expenditure streams.</li> <li>• Detailed testing of income and expenditure transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Estimation and judgements</b></p> <p>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</p>	<p>Effective budget monitoring by management.</p> <p>Regular reporting to the Board, Audit Committee and Library Leadership Team.</p> <p>Indexation factors for the valuation of the Library's land and buildings are applied in the years where a full revaluation is not undertaken.</p>	<ul style="list-style-type: none"> <li>• Focused substantive testing during the financial statements audit of key areas.</li> <li>• Review of accounting policies to ensure these are reasonable and in line with the accounting framework.</li> <li>• Assessment of indexation factors applied to fixed assets to ensure these are from a reliable source.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>4 Cyber security</b></p> <p>The Library has scope to improve its cyber security arrangements. NLS is working towards obtaining Cyber Essential Plus accreditation and has</p>	<p>IT services are monitoring this risk in its departmental risk register.</p> <p>IT services are working towards achieving Cyber</p>	<ul style="list-style-type: none"> <li>• Monitor progress of cyber security improvements.</li> <li>• Ensure business continuity and IT security policies are appropriate.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
<p>consulted an external agency for guidance on this. However, their previous Cyber Essentials certificate has not been renewed due to unsupported systems and software.</p> <p>There is a risk of data loss, ransomware and reputational damage while the Library is exposed to cyber attacks.</p>	<p>Essentials Plus accreditation this year.</p> <p>On-going training and recruitment within the digital team.</p>	<ul style="list-style-type: none"> <li>Ongoing discussions on cyber security arrangements with IT senior officers.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

- 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).
- 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 management to confirm factual accuracy.
- We will provide an independent auditor's report to the Library, 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.

## Exhibit 2 2020/21 Audit outputs

Audit Output	Latest date	Committee Date
Annual Audit Plan	31 March 2021	8 February 2021
Annual Audit Report	31 October 2021	9 August 2021
Independent Auditor's Report	31 October 2021	29 September 2021 <i>(Board approval)</i>

Source: Audit Scotland

## Audit fee

- The audit fee for the 2020/21 audit of the Library is £21,600 (2019/20: £21,090). In determining the audit fee we have taken account of the risk exposure of National Library of Scotland, the planned management assurances in place and the coverage of internal audit work. Our audit approach assumes receipt of the unaudited annual report and financial statements, with a complete working papers package on 14 June 2021.
- Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to use 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

12. 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.
13. The audit of the annual accounts does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

14. 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.
15. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report. 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

## Annual report and financial statements

**16.** 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
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- 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.

**17.** We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of NLS as at 31 March 2021 and of the income and expenditure of NLS for the year then ended;
- have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements for charitable bodies;
- the regularity of expenditure and income.

## Other information in the annual report

**18.** We review and report on statutory 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.

**19.** We also review the content of the Annual Report of the Board for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**20.** 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.

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



characteristics



responsibilities



principal activities



risks



governance arrangements



## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.25% of gross expenditure for the year ended 31 March 2020 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. We have ensured this threshold is reasonable to allow appropriate testing of income and expenditure items.	£30 thousand



Source: Audit Scotland

## Timetable

22. 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

### Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	14 June 2021
Latest date for final clearance meeting with Director of Business Support	30 June 2021
Agreement of audited unsigned financial statements; issue of draft Annual Audit Report to those charged with governance	31 July 2021
Issue of annual audit report, letter of management representation and proposed independent auditor's report	31 July 2021
Presentation of our Annual Audit Report to the Audit Committee	9 August 2021
Approval of the NLS annual report and financial statements by the Board; Independent auditor's report signed	29 September 2021

## Internal audit

23. Internal audit is provided by BDO. 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 the main requirements of the Public Sector Internal Audit Standards (PSIAS).

- 24.** As BDO are the internal auditors for several shared clients with Audit Scotland, we will complete a central review of the adequacy of their work and compliance with the Public Sector Internal Audit Standards (PSIAS). We will report the findings of this review as part of our Annual Audit Report, concluding whether BDO's policies and practices are compliant with the PSIAS.
- 25.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Therefore, we will also complete a local review of internal audit arrangements for NLS and internal audit plans. We will consider internal audit findings, in particular for the purposes of our wider dimension audit. As we intend to focus our external audit on substantive testing, we will not place formal assurance on the work of internal audit to support our audit opinion on the financial statements. We will report any significant findings to the Audit Committee in due course.

## Whole of Government Accounts

- 26.** The Code of Audit Practice requires appointed external auditors to review and report on whole of government accounts (WGA) returns prepared by audited bodies. As in prior years, external auditors of Central Government entities are required to certify 2020/21 WGA returns. We do not expect NLS to be within the boundary determined by HM Treasury for WGA for the 2020/21 year. We will, however, monitor this position throughout the year and report accordingly following the year-end.

## Audit dimensions

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

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

## Financial sustainability

- 28.** 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 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.

**29.** The Library's year end financial position in 2020/21 is expected to be a slight surplus, based on Finance Monitoring reports. This is due to decreased income from sales, rent, etc. being balanced by decreased expenditure on staff costs, travel costs and rates relief on buildings. However the longer term sustainability will depend upon the affordability of pay policies, cost of deferred maintenance projects, and the ability to generate efficiency savings to match any reduction of Grant-in-Aid funding.

**30.** 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Financial management

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

**32.** We will review, conclude and report on:

- whether NLS has arrangements in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- 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.

**33.** The Financial Accountant position at the Library has been vacant since June 2020. This is a key position for overseeing financial controls and helping with preparation of the accounts. A new Financial Accountant has now been appointed and will start in February 2021. We will review the mitigating control arrangements in place during the year as part of our interim testing work.

### Governance and transparency

**34.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information.

**35.** 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 2019. The documents provide good coverage of the Library's operations, are clear and easy to follow and are an example of good governance practice.

**36.** In response to the Covid-19 pandemic, the Library has had to close to the public at different points during the year. The Library has focused on using digital engagement to host online events and programmes, and makes use of online communication with its staff. This has included use of online

teleconferences to ensure Board and committee meetings still take place remotely. We will continue to monitor any changes to governance arrangements due to the pandemic.

**37.** We will 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

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### Best Value

**39.** 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. We will consider how the Library achieves BV and include any relevant findings in our Annual Audit Report.

### Independence and objectivity

**40.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must 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.

**41.** The engagement lead (i.e. appointed auditor) for NLS is Asif A Haseeb OBE. 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.

### Quality control

**42.** 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.

- 43.** 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.
- 44.** 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

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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