

A REPORT BY THE AUDITOR GENERAL FOR SCOTLAND UNDER SECTION 22(3) OF
THE PUBLIC FINANCE AND ACCOUNTABILITY (SCOTLAND) ACT 2000

THE 2010/11 AUDIT OF THE NATIONAL LIBRARY OF SCOTLAND

1. I have received the audited accounts of the National Library of Scotland (NLS) for the year ended 31st March 2011. The auditor has given an unqualified opinion on the accounts. I have decided to issue this report to update Parliament on a financial misappropriation which I reported to Parliament on the accounts for 2009/10.
2. I submit these accounts and the auditor's report in terms of section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report which I have prepared under section 22(3) of the Act.
3. My report on the 2009/10 accounts noted that the auditor had qualified the regularity opinion on the accounts because of a material financial irregularity arising from a fraud. The matter had been identified during preparatory work for specifying a new finance system and had been fully investigated by the NLS' internal auditor. As a result the NLS had strengthened its procedures for authorisation and approval of expenditure relating to procurement. A member of NLS staff had resigned and the NLS had referred the matter to the police.
4. In May 2011 the NLS' former Chief Information Officer pleaded guilty to defrauding the library of £500,000 over a period of four years. The fraud arose from misuse of a government purchasing card and through contracts awarded on behalf of NLS to a company owned by the former Chief Information Officer. The individual involved was convicted and sent to prison for two years. The NLS has taken civil action to recover the funds and to date £150,000 has been returned.
5. The NLS has taken steps to improve its procedures to ensure that a similar fraud could not take place in future. When the fraud was first identified it immediately strengthened procedures in place by requiring its managers to examine procurement methods used more closely before authorising expenditure. In April 2011 further improvements were introduced through a replacement finance system designed to increase the effectiveness of internal controls and financial management within the library. Specifically the system addresses:
 - Raising and approving of purchase orders in advance of placing an order
 - Receipt of invoices directly to finance
 - Matching of invoices to purchase orders
 - Electronic approval of invoices
 - Effective and responsive reporting on procurement, financial commitments and spend against budget
 - Increase transparency of financial transactions
6. The NLS also engaged an independent assessor to provide an opinion on its reaction to the discovery of the fraud. The assessor was asked to consider whether the responses of NLS management and its Audit Committee had been appropriate, whether its governance, management and audit arrangements in relation to fraud issues were reasonable and whether there were any additional lessons that should be taken into account in the new financial system. The assessors report concluded both NLS management and its Audit Committee had acted appropriately when the fraud was

uncovered. It also noted that the revised financial practices provide an appropriate balance of trust and empowerment to address potential misappropriation provided cultural behaviour within the NLS continues to ensure that the internal control systems are properly applied. The report also made a number of recommendations about scope for improvement in governance, management and audit relating to the need for regular reporting to the NLS' Audit Committee and the work of its internal audit function. The NLS has accepted these recommendations and is taking action to address them.

7. I have asked the appointed auditor to monitor the progress NLS makes in introducing its replacement finance system and taking forward the recommendations of the independent assessor.



Robert W Black
Auditor General for Scotland
November 2011