

# National Library of Scotland

Annual Audit Report 2016/17



 AUDIT SCOTLAND

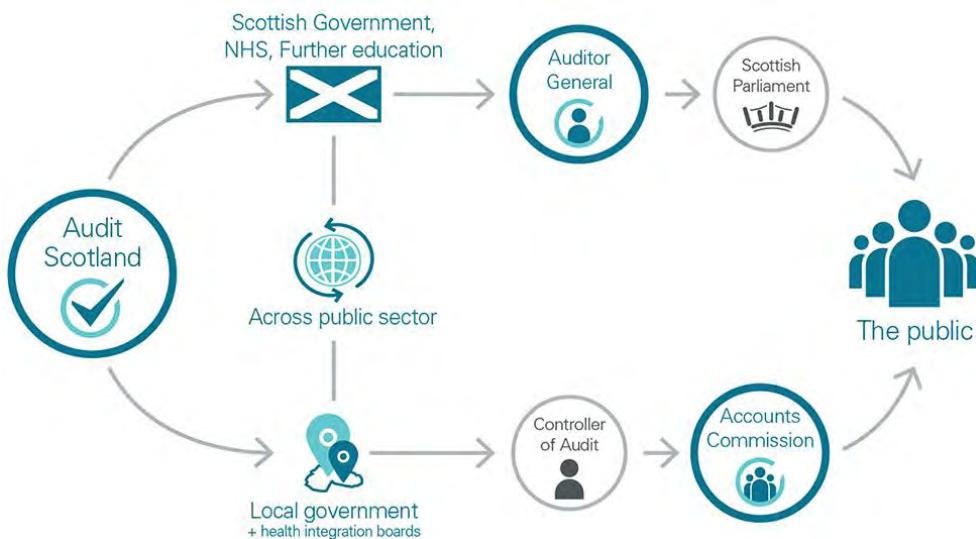
Prepared for National Library of Scotland and the Auditor General for Scotland

14 August 2017

# 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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## Audit of the 2016/17 financial statements

- 1 The financial statements of National Library of Scotland (NLS) give a true and fair view of the financial position and their expenditure and income.
- 2 The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3 The Annual Report of the Board was consistent with the financial statements and prepared in accordance with the accounting framework.

## Financial management

- 4 We concluded that NLS have effective arrangements in place for financial management. NLS have maintained a balance on their General Fund of £347,000 as at 31 March 2017. This is a decrease of £58,000 against the prior year's balance.
- 5 NLS have adequate systems of internal control in place which operated effectively in 2016/17.

## Financial sustainability

- 6 We concluded that NLS have adequate financial planning arrangements in place.
- 7 Like other public sector bodies, The Library will face challenges in the coming years to continue to achieve a balanced budget. The Library's savings target in 2017/18 is £470,000, which is on course to be achieved. The Library should continue to develop robust savings plans for financial years 2018/19 and 2019/20.

## Governance and transparency

- 8 We concluded that NLS have effective governance arrangements in place.
- 9 The Library's Board promotes good governance and accountability, by providing effective scrutiny of the Library's performance and governance arrangements.

## Value for money

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

# Introduction

**1.** This report is a summary of our findings arising from our 2016/17 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 February 2017 meeting of the Audit Committee. This report comprises:

- an audit of the NLS annual report and financial statements
- consideration of the wider dimensions set out in the *Code of Audit Practice 2016* as illustrated in [Exhibit 1](#).

## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

**3.** The main elements of our audit work in 2016/17 have been:

- an interim audit of NLS's key financial systems and governance arrangements
- an audit of NLS's 2016/17 annual report and financial statements, including the issue of an independent auditor's report setting out our opinions
- a review of the Library's arrangements in relation to the audit dimensions noted above. This report is structured to cover our assessment of each of these dimensions.

**4.** NLS is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and financial statements, and for establishing effective arrangements for governance, propriety and regularity that enable the Library to successfully deliver its objectives.

**5.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *[Code of Audit Practice 2016](#)*, supplementary guidance and, guided by the auditing profession's ethical guidance.

**6.** These responsibilities include giving independent opinions on the financial statements, regularity of income and expenditure, and information contained within the Annual Report of the Board and the governance statement. We also review and report on the arrangements within NLS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

**7.** Further details of the respective responsibilities of management and the auditor can be found in the *[Code of Audit Practice 2016](#)* and supplementary guidance.

**8.** The risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Our annual audit report contains an action plan at [Appendix 1 \(page 23\)](#). It sets out specific recommendations, agreed management actions, responsible officers and dates for implementation.

**9.** Communication in this report of matters arising from the audit of the annual report and financial statements or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

**10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 agreed audit fee is £20,110. As we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

**11.** This report is addressed to both the National Library of Scotland 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) after the Library's annual report and financial statements have been laid before the Scottish Parliament.

**12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

**The 2016/17 financial statements give a true and fair view of the state of the Library's affairs and of its net expenditure for the year.**

**The draft annual report and financial statements and supporting working papers provided to the audit team were of a high standard.**

### Unqualified audit opinions

**13.** The annual report and financial statements for the year ended 31 March 2017 will be approved by the Board on 25 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements;
- an unqualified opinion on regularity of expenditure and income; and
- an unqualified audit opinion on the Annual Report of the Board which has been prepared in accordance with the Charities Statement of Recommended Practice (SORP).

**14.** Additionally, we are satisfied that there are no matters which we are required to report by exception.

The annual report and accounts 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

**15.** We received the unaudited financial statements on 15 June 2017, in line with our agreed audit timetable.

**16.** The working papers provided with the unaudited financial statements were of a high standard and finance staff provided good support to the audit team. This helped ensure the audit process ran smoothly.

### Risk of material misstatement

**17.** [Appendix 2 \(page 25\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. For each risk we identified, we have set out the results and conclusions of our audit testing.

### Materiality

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is

material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual report and financial statements was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**20.** On receipt of the unaudited annual report and financial statements we reviewed our original materiality calculations and concluded that they remained appropriate, subject to small adjustments to base our materiality on actual total assets as at 31 March 2017.

## 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 was set at 1% of total assets for the year ended 31 March 2017.	£1.12 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 overall materiality.	£0.84 million
<b>Reporting threshold</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 overall materiality.	£ 22,000

Source: Audit Scotland

## Evaluation of misstatements

**21.** It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officer and materiality levels.

**22.** There were no material adjustments to the unaudited financial statements arising from our audit.

## Significant findings from the audit in accordance with ISA260

**23.** International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. We have one finding to raise, as noted in [Exhibit 3](#). This finding has resulted in a recommendation to management and therefore a cross reference to the Action Plan in [Appendix 1](#) ([page 23](#)) has been included.

### Exhibit 3

#### Significant findings from the audit of financial statements

Issue	Resolution
<b>1. Annual leave accrual</b> <p>NLS have calculated a liability (total £189,000) for employees' untaken annual leave from 2016/17, which staff are entitled to claim in 2017/18. However, our review identified that NLS are potentially understating this accrual by up to £50,000, as employer pension costs and untaken flexi balances are not included in the calculation. These are further costs which NLS are liable for, as part of employees' entitlement to receive untaken annual leave and additional flexi hours worked.</p> <p>This accrual is an area of estimation and any potential adjustment would be immaterial. Therefore, we have agreed with management that they should revise their methodology in 2017/18 to see if the judgement and assumptions used in this calculation remain appropriate to NLS.</p>	<p>Management have agreed to review their methodology applied to their annual leave accrual in 2017/18. NLS finance officers have agreed with us that no adjustment is required this year, due to the immaterial impact of including these additional items.</p> <p><a href="#">Action Plan (Appendix 1, point 1)</a></p>

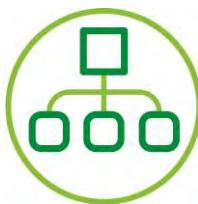
Source: Audit Scotland

## Other findings

**24.** Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and financial statements.

# Part 2

## Financial management



### Main judgements

**NLS had effective overall management of the 2016/17 budget.**

**Systems of internal control operated effectively in 2016/17.**

**There has been good engagement with the National Fraud Initiative from an early stage.**

**Finance officers have appropriate skills, capacity and capability to support NLS.**

### Financial performance in 2016/17

**25.** The main financial objective for NLS is to create a stable and sustainable financial environment that allows the Library's strategic objectives to be met.

**26.** NLS have reported an outturn of £23.367 million (2015/16: £21.236 million). This is a small underspend of £37,000 against total Departmental Expenditure Limits (DEL). The financial performance against DEL is shown in [Exhibit 4](#).

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

### Exhibit 4

Performance against DEL in 2016/17

Performance	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Resource DEL	13.495	12.987	(508)
Ring-fenced DEL (non cash)	2.600	2.499	(101)
Capital DEL (includes purchase grant)	7.309	7.881	572
Total DEL	23.404	23.367	(37)

Source: 2016/17 NLS Annual Report and Financial Statements

**27.** The £572,000 overspend noted against Capital DEL is attributable to the Causewayside refurbishments and timing differences of funds received compared to expenditure. The Causewayside project, like other capital works, is mainly funded by the Scottish Government, with £2.8 million received during 2016/17. However, due to the good progress made for these capital works, the timing of the funds received did not match the timing of expenditure. The capital budget for 2017/18 includes a further £3.5 million of funds to deliver the Causewayside project.

**28.** Overall the Library reported a £37,000 underspend against total DEL. The resource DEL outturn was achieved by NLS achieving a number of savings in year. This includes staff cost savings where the Library had an uptake of 14 voluntary exit packages in 2016/17. Net annual savings for these voluntary exit schemes is estimated at £366,000.

**29.** The Library's financial health is also reflected by its level of reserves, in particular, the General Fund. The Library has seen a decrease of £58,000 in its General Fund balance in 2016/17, moving from £405,000 in 2015/16 to £307,000 in 2016/17. This balance has been maintained above the £200,000 threshold set by Board members. The downward movement in this balance is again mainly attributable to the timing differences of funds received compared to expenditure on the Causewayside project. The Library has therefore used some of its General Fund to bridge this gap in funding.

## Internal controls

**30.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that NLS have systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**31.** Our interim work in February 2017 reviewed a number of key financial systems, including:

- General Ledger
- Creditors
- Debtors
- Payroll
- Fixed assets
- Cash and bank

**32.** We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit which could affect NLS's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**33.** We did, however, find one issue regarding access to the Library's online banking system. We found that a finance officer still had access to the Library's banking system 2 months after leaving the organisation. We acknowledge that this member of staff was not an 'authoriser' so would have been unable to make any payments out of the Library's accounts. Nevertheless, we recommend that access to key financial systems such as online banking should be reviewed periodically to ensure access remains appropriate.

## Recommendation 2

**Staff access to key financial systems should be removed timeously when employees leave the organisation. A periodic review of system access to financial systems should be carried out to check access granted remains appropriate.**

## Budgetary processes

**34.** We also reviewed NLS's budgetary processes and budget monitoring arrangements. From our review of budget monitoring reports, review of Audit Committee papers and attendance at meetings, we confirmed that senior management and members receive regular, timely and up to date financial information on the financial position.

**35.** We concluded that NLS have effective budgetary monitoring and control arrangements that allow both members and officers to carry out effective scrutiny of its finances.

## Prevention and detection of fraud and irregularity

**36.** We assessed the NLS's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the NLS fraud response policy in place.

**37.** We concluded that NLS is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

## National Fraud Initiative

**38.** 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 error ([Exhibit 5](#)).

## Exhibit 5

Total number of matches	Number recommended for investigation	Completed/closed investigations
 150	 26	 150

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

**39.** In summary, NLS have been pro-active in completing investigation work, with all data matches reviewed by June 2017. No outcomes have been reported as being a fraud or error in this latest exercise. There were 150 NLS matches identified in total, 26 of which were recommended matches. 25 of these

recommended matches were for the ‘duplicate payments’ creditors category. These have all been investigated in full with no issues found. All outcomes are recorded on the NFI secure website with comments provided to support each conclusion.

**40.** In the past, NLS have used external audit reports to inform the Audit Committee of the NFI investigation work undertaken. However, we recommend that good practice would be for finance officers to provide their own regular updates to the Audit Committee, to ensure members are more engaged with this important fraud prevention exercise.

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### **Recommendation 3**

**We recommended finance officers present updates to the Audit Committee with NFI progress, to provide additional assurance to members regarding controls in place to prevent and detect fraud.**

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**41.** Overall 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 150 NFI matches processed by June 2017.

### **Standards of conduct and arrangements for the prevention and detection of bribery and corruption**

**42.** We have reviewed the arrangements in place to maintain standards of conduct including the Code of Conduct for NLS staff and Code of Conduct for members of the Board. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. Furthermore, NLS have a Gifts, Fees, Hospitality, Bribery and Corruption Policy in place. This refers to the relevant Bribery and Corruption Act 2010, key risk areas and sets out how staff should raise any concerns.

**43.** Based on our review of the evidence we concluded that NLS have appropriate arrangements in place for the prevention and detection of bribery corruption. We are not aware of any specific issues that we need to bring to your attention.

# Part 3

## Financial sustainability



### Main judgements

**NLS have adequate financial planning arrangements in place, as reported in the Library Plan.**

**The Library will face challenges in the coming years to achieve savings targets to balance their budget.**

### Financial planning

**44.** The 2017/18 Library Plan includes the budget for the year. This Plan was presented to the Board at the meeting in March 2017. The 2017/18 budget sets out that the Library's total Grant in Aid is £18.480 million<sup>1</sup>. This is made up of £13.180 million for its revenue budget and £5.3 million for its capital budget. The total budget is £1.7 million (8.4%) less than the initial 2016/17 budget allocation. The reduced budget is due to a decrease in the Library's capital budget, primarily due to the completion of works at Kelvin Hall which opened in September 2016.

**45.** The 2017/18 budget also includes £1.768 million of other income; such as other grant income, donations, fundraising and earned income from services. The 2017/18 budget shows a balanced position, with total expenditure projected to be £20.248 million to match income.

**46.** Management have acknowledged that balancing the 2017/18 budget has been challenging due to the following factors:

- Although Grant in Aid revenue funding is the same as 2016/17, this is a real-terms reduction (due to external factors such as inflation)
- The Library will have to manage substantial cost increases, such as the opening of the new Kelvin Hall site, increases in legal deposit costs and pay increases.

**47.** In overall terms, when compared to the 2016/17 financial year, the Library will have lower income and expenditure in 2017/18 (approximately £2.6m less for each). This is due to the completion of the Kelvin Hall capital project.

### 2016/17 financial position

**48.** The Balance Sheet summarises what is owned and owed by NLS. The financial statements show that the Library has net assets of £109.472 million. This is an increase of £8.392 million largely attributable to heritage asset purchases in the year to add to the Library's collection, and an increase in debtors as a result of a prepayment of the Kelvin Hall lease over a 30 year period. The Library's capital expenditure (excluding the purchase grant) amounted to £6.896 million which was

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.

<sup>1</sup> Library Plan 2017/18

largely attributable to the works completed at the new Kelvin Hall site and the refurbishment works carried out at the Causewayside building.

## Medium to long term financial planning

**49.** We reviewed the financial planning in place at the Library and assessed how effective management are in identifying and addressing risks to financial sustainability across the medium and long term.

**50.** We recognise that NLS is mainly funded from the Scottish Government (SG) budget allocation through Grant in Aid (91% of total income) and this is set on a year-on-year basis by the SG. However, this should not preclude NLS from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.

**51.** The 2017/18 budget sets out efficiency savings which need to be achieved to balance the budget. During 2017/18 the Library plans to make efficiencies or raise extra income totalling over £470,000 (approximately 3.5% of the revenue grant). These savings are planned to offset the real-terms decrease in revenue grant funding, and then to re-invest savings back into operational activities to help the Library to continue delivering its service requirements.

**52.** The Library is on course to achieve this savings target in 2017/18 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 2017/18 so efficiency savings are generated across all areas, particularly in relation to staffing costs (which account for 52% of the total NLS budget). In overall terms, staff costs are expected to reduce for 2017/18 largely as a result of the voluntary exit scheme run during 2016/17.
- Constrain cost growth through effective demand management, good financial control by budget holders, and effective negotiation with suppliers.

**53.** 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.

**54.** The Library Plan notes that a number of scenarios are possible, but the current estimate, based on a possibly optimistic outlook for revenue Grant in Aid, is that the Library will be required to save or raise at least £280,000 as part of setting the 2018/19 and 2019/20 budgets.

## Recommendation 4

**The Library should ensure that robust saving plans continue to be developed for financial years 2018/19 and 2019/20.**

# Part 4

## Governance and transparency



### Main judgements

**NLS have effective governance arrangements in place, supported by the Board which adequately reviews performance and governance.**

**The annual governance statement complies with relevant guidance and provides a good summary of the Library's governance arrangements.**

**Internal audit operates in accordance with the Public Sector Internal Audit Standards.**

### Governance structure

**55.** 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.

**56.** 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>2</sup>. The Board is supported in its governance role by the following committees:

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

**57.** 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, principally associated with the implementation of the National Library of Scotland Act 2012.

**58.** 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.

**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.

<sup>2</sup> Framework Document between the Scottish Government and the National Library of Scotland

## Review of governance arrangements

**59.** During our interim audit, we carried out a review of the role of the NLS Board. This followed up recommendations from a previous Audit Scotland national performance report published in September 2010. This assessed the governance, decision-making and scrutiny arrangements of the Board. Our review included an assessment of Board papers and minutes, and discussions with the Board Support & Compliance Officer.

**60.** Our review found one area of potential improvement - while Board minutes are published on the NLS website, Board agendas and papers are not. We would recommend the Library considers publishing these additional items in an effort to improve transparency. We do, however, acknowledge that access to this area of the website is generally low.

### Recommendation 5

**In an effort to improve transparency to the Library's stakeholders, we recommend NLS consider publishing Board agendas and papers on its website.**

**61.** Overall our review concluded that appropriate arrangements are in place to ensure the performance and governance of the Library are effectively scrutinised by members. These arrangements support good governance and accountability within NLS.

## Governance Statement

**62.** Under the Treasury's Financial Reporting Manual (FReM), NLS must prepare an annual governance statement within the 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.

**63.** The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken 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.

**64.** We concluded that the 2016/17 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 matters.

## Internal audit

**65.** Internal audit provides NLS and the Accountable Officer with independent assurance on NLS's overall risk management, internal control and corporate governance processes.

**66.** The internal audit function is carried out by Henderson Loggie. We carried out a review of the adequacy of the internal audit function and concluded that Henderson Loggie operates in accordance with the Public Sector Internal Audit Standards (PSIAs) and has sound documentation standards and reporting procedures in place.

**67.** To avoid duplication effort we normally place reliance on the work of internal audit where possible. In 2016/17, we chose not to place any formal reliance on the work of internal audit for the purpose of obtaining direct assurance for our financial statements work. We adopted this approach as we have taken a substantive approach to our audit, by focusing our testing on the year-end financial statements. We will look to place reliance on Henderson Loggie's work in future years where possible.

**68.** We also considered internal audit report findings as part of our wider dimension work. This included the following reports:

- Business Continuity Planning
- Collections – Cataloguing
- Key Financial Controls
- Corporate Planning/ Performance Reporting/ KPIs

## Risk management

**69.** We have reviewed the Library's risk management arrangements in place, including a review of the Risk Management Policy & Appetite, and the NLS Operation Risk Management Framework and Procedures.

**70.** The Risk Management Policy & Appetite defines risk, outlines the principles the Library will follow, allocates responsibilities for the management of risk (for various categories of staff and management) and outlines the appetite the Library has for risk i.e. amount of risk the Library is willing to accept.

**71.** Risk at departmental level is identified and managed by each Head of Department on Departmental Risk Registers. These registers are then supported by a Corporate Risk Register which is managed by the Library Leadership team (LLT). The Corporate Risk Register is reviewed on a quarterly basis by LLT with any new risks escalated to the appropriate level. In conjunction with the Board, the Library then develops the Strategic Risk Register. The Strategic Risk Register is reviewed at least every six months, both by LLT and the Audit Committee, and is reported to the Library's Board.

**72.** The Audit Committee has a responsibility to scrutinise and provide assurance to the Library Board on the adequacy of its risk management processes. This includes reviewing the Library's Strategic Risk Register and agreeing the Risk Appetite and Tolerances.

**73.** We have concluded that appropriate risk management arrangements are in place. The related policies and procedures, including the regular update of risk registers, have been deemed to be comprehensive for NLS.

## Information Technology (IT) developments

**74.** We previously raised a risk in our Annual Audit Plan which noted that the Library had no IT strategy or overarching IT plan in place. Furthermore, there were IT policies, such as the Information Security Policy and IT Business Continuity Plans, which required updating to ensure these are fit for purpose.

**75.** The Head of Digital has now been in post since September 2016 and has looked to address these issues. A priority for the Library has been the development of a Digital Roadmap which covers the period 2017-2020. The Digital Roadmap plans to facilitate the strategic aims of the Library, including safeguarding collections, improving access, and supporting research, learning and engagement. The Roadmap sets out clear plans over the next three years to develop the Library's IT systems and digitisation project. This includes the implementation of a

new Library Services Platform, plans to improve the IT infrastructure of the organisation, and the work required to digitise 100,000 of the Library's items to contribute to the One Third Digital strategic aim.

**76.** In addition to these new plans, a review of the Information Security Policy is now underway with an updated policy planned for completion in late summer 2017. Business Continuity Planning (BCP) is another area NLS have looked to strengthen. The Library has used an external consultant to review the Library's BCP arrangements, which has included site visits and mock testing of the Library's systems. NLS have now completed a Disaster Recovery framework, plan and strategy to improve this area of the organisation.

**77.** We have concluded that significant progress has been made in developing a suitable IT strategy for the Library and work is underway to revise IT policies. However, management have acknowledged that to fully test its new Business Continuity Plans, technical recovery documents still require to be developed and more rigorous testing of BCP procedures is needed to fully test the robustness of the Library's systems and recovery solutions.

## Transparency

**78.** Transparency means that the public have access to understandable, relevant and timely information about how the Library is taking decisions and how it is using resources.

**79.** The NLS Board meetings are held in private. However, Board minutes are published on the NLS website which promotes transparency of the Library's activities. We have recommended in this report that NLS consider publishing Board agendas and papers to further engage with members of the public.

**80.** NLS have a well-established complaints handling procedure in place which is monitored by the External Relations & Governance Department via an online database to track progress. Information is available on the Library's website about how to register complaints. Our review of these procedures noted that NLS have a clearly laid out procedure available to the public. The procedure also refers the reader to the Scottish Public Services Ombudsman (SPSO) with contact information, if they are dissatisfied with the NLS procedure. These arrangements are deemed appropriate.

**81.** Overall, we concluded that NLS conducts its business in a transparent manner but we believe that the publication of further information on the NLS website is an area where the Board could improve current arrangements.

# Part 5

## Value for money



### Main judgements

**NLS has a well developed performance management framework in place.**

**The Library's performance indicators show improvement across a number of areas; most notably across digitising their collections, website usage and exhibition visitors.**

#### Performance management

**82.** 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.

**83.** NLS includes their objectives in the 2016/17 Library Plan. This Plan sets out objectives, which are linked to the Library's strategy, to be achieved in the financial year. For 2016/17, the Plan comprised a total of 49 objectives. Among other measures, the Plan includes metrics on the percentage of items in a digital format, visitor numbers, website visits and staff absence rates. The Library Leadership Team (LLT) and Board have then monitored the achievement of these objectives by using 13 Key Indicators in 2016/17. We have summarised the Library's performance against these Key Indicators in [Exhibit 6](#). This includes prior year comparators where available.

**84.** Particular items completed in relation to the Library Plan targets in 2016/17 include:

- The opening of the National Library at Kelvin Hall in Glasgow. This is home to the Moving Image Archive which offers hundreds of historic films of life in Scotland for enjoyment and education.
- Significant progress with the major renovation of the Library's main book store at the Causewayside building in Edinburgh.
- A major acquisition in securing a collection of 33 autograph letters of Robert Louis Stevenson to Anne Jenkin, the widow of Stevenson's professor at Edinburgh University.
- The Library staged two major exhibitions: 'Plague: a cultural history of contagious diseases in Scotland' and 'You are Here' on maps which attracted over 92,000 visitors.

**85.** 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

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

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.

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

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

## Performance trends

**88.** We reviewed the main performance indicators used by NLS and trends over a 3 year period and have summarised these in [Exhibit 6](#).

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### Exhibit 6

#### NLS Key Indicators – trend analysis

	2014/15	2015/16	2016/17
1. Environmental compliance	● 99.1%	● 99.4%	● 98.7%
2. Percentage reduction in Hidden Collections	N/A	● 0%	● 2.7%
3. Percentage of collections available in digital format	● 2.6%	● 5.5%	● 11.8%
4. Number of research collaborations	N/A	● 13	● 20
5. Reading Room visits	● 63,989	● 63,291	● 69,392
6. Exhibition visitors	● 101,796	● 118,251	● 132,063
7. Number of public engagement/event attendees	● 104 events, 6320 attendees	● 120 events, 6,623 attendees	● 107 events, 58 tours
8. Website usage (web sessions)	● 2,916,333	● 3,452,649	● 4,070,417
9. Overall user satisfaction levels	N/A	● 8.6	● 8.7
10. Staff absence rate (days per employee)	● 8.6	● 8.3	● 6.2
11. Percentage raised against Fundraising target	N/A	● 87%	● 63%
12. Central support costs as a percentage of income	● 6.6%	● 3.6%	● 5.2%
13. Media profile (advertising value equivalent)	● £3,300,000	● £2,179,000	● £2,308,000

Source: NLS Annual Report and Financial Statements 2015/16 and 2016/17

**89.** We note that there has been improvement across a number of key indicators (in 10 out of the 13 indicators) in 2016/17 compared to the previous year, including a reduction in staff absence rates at the Library. Performance indicators for number of visitors and website usage have improved, which is partly attributable to the new Kelvin Hall site in Glasgow. In addition, the Library organised a number of successful exhibits, most notably the last letter of Mary Queen of Scots which was displayed in February 2017 and attracted a large number of visitors.

**90.** However, performance on delivering the total fundraising target was again not met this year. The fundraising target in 2016/17 was £600,000, with £378,000 (63%) of this total collected. It is acknowledged that fundraising and the timing of donations is difficult to forecast. It should also be noted that NLS are not reliant on fundraising, as they do not commit to any projects if fundraising targets are not met. However, achievement of this target is crucial to supporting significant elements of the Library's strategy.

## National performance audit reports

**91.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, we published a number of national reports. The full list of publications is outlined in [Appendix 3](#) accompanying this report. We consider the following publications to be of interest to NLS:

- [\*The National Fraud Initiative in Scotland\*](#) – June 2016
- [\*Supporting Scotland's economic growth\*](#) – July 2016
- [\*Superfast broadband for Scotland: a progress update\*](#) – August 2016
- [\*Scotland's new financial powers\*](#) – September 2016
- [\*i6: a review\*](#) – March 2017
- [\*Managing new financial powers: an update\*](#) – March 2017

**92.** The Audit Committee receives updates on Audit Scotland national reports which are considered relevant. Recent national reports were summarised within the quarterly Finance Report presented at the May 2017 meeting.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	<p><b>1. Annual leave accrual</b></p> <p>NLS have calculated a liability (total £189,000) for employees' untaken annual leave from 2016/17, which staff are entitled to claim in 2017/18. NLS are potentially understating their annual leave accrual and therefore their liabilities, as employer pension costs and untaken staff flexi balances are not included in the calculation.</p>	<p>We recommend finance officers review their methodology and assumptions used in this calculation, to identify if this reflects an accurate estimate of the Library's liability for untaken annual leave and flexi hours owed to employees.</p>	<p><b>Agreed action:</b> We accept this recommendation and will review our methodology for this annual leave accrual in 2017/18.</p> <p><b>Responsible officer:</b> Associate Director of Business Support</p> <p><b>Target date:</b> March 2018</p>
12	<p><b>2. Access to the banking system</b></p> <p>A finance officer continued to have access to the Library's online banking system after leaving the organisation.</p> <p>There is a risk that system access is not granted to appropriate users.</p>	<p>Staff leaving NLS should have system access removed immediately.</p> <p>A periodic review should be carried out to ensure system access to NLS key financial systems remains appropriate for all users.</p>	<p><b>Agreed action:</b> This finance officer's access was removed from the banking system during the interim audit in February 2017.</p> <p>We will ensure reasonableness checks over system access are reviewed periodically, and make timely access changes for starters and leavers when required.</p> <p><b>Responsible officer:</b> Associate Director of Business Support</p> <p><b>Target date:</b> August 2017</p>
13	<p><b>3. Reporting of NFI work</b></p> <p>Updates on the National Fraud Initiative (NFI) and investigation of data matches has not previously been provided to the Audit Committee by NLS finance officers.</p>	<p>We recommend finance officers present NFI updates to the Audit Committee, to provide members with additional assurance over controls in place to prevent and detect fraud.</p>	<p><b>Agreed action:</b> NFI updates will be provided to the Audit Committee going forward.</p> <p><b>Responsible officer:</b> Associate Director of Business Support</p> <p><b>Target date:</b> August 2017</p>



Page no.	Issue/risk	Recommendation	Agreed management action/timing	
15	<b>4. Efficiency savings</b>	<p>Like all public sector bodies, NLS faces financial challenges going forward. In 2017/18 the Library plans to make efficiency savings or raise extra income totalling over £470,000 (approximately 3.5% of the revenue grant).</p>	<p>The Library should ensure that robust saving plans are developed for 2018/19 and 2019/20.</p> <p>The achievement of savings will be crucial in maintaining financial balance over the coming years. The 2017/18 Library Plan sets out budgets for the next three financial years. While the Library is on course to achieve savings in 2017/18, NLS should ensure that it develops robust plans in the medium term for financial years 2018/19 and 2019/20.</p>	<p><b>Agreed action:</b> The finance department and Library Leadership Team will continue to develop more detailed savings plans for future years to achieve a balanced budget.</p> <p><b>Responsible officer:</b> Associate Director of Business Support</p> <p><b>Target date:</b> September 2017</p>
17	<b>5. Publication of Board agenda and papers</b>	<p>Board agendas and papers are not currently published on the Library's website for members of the public to view.</p>	<p>In an effort to improve transparency, we recommend NLS consider publishing Board agendas and papers, in addition to the minutes currently provided.</p>	<p><b>Agreed action:</b> Management will consider if publishing Board papers would be beneficial for its stakeholders.</p> <p><b>Responsible officer:</b> Head of External Relations and Governance</p> <p><b>Target date:</b> December 2017</p>

# 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>		
<b>1 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 in order to change the position disclosed in the financial statements.	Detailed testing of journal entries.  Reviewed accounting estimates.  Focused testing of accruals and prepayments.  Evaluation of significant transactions that are outside the normal course of business.	We substantively tested a sample of journal entries and agreed to source documentation. There were no issues to report.  We reviewed accounting policies in the financial statements. We have deemed these to be appropriate for NLS.  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.
<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 means that, per 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.	Carried out analytical procedures on income and expenditure streams.  Substantively tested revenue and expenditure transactions focused on the areas of greatest risk.  Carried out audit work on the National Fraud Initiative matches.	Sample testing of income and expenditure transactions was satisfactory.  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.  NLS are pro-active in investigation of data matches and no fraud or error has been found in the latest exercise.
<b>3 Accounting treatment for grants</b>  Under the Charities SORP accounting framework, charities are required to recognise the full amount of grant income (where grants do not impose performance related conditions)	Focused testing of material grant income at year-end to ensure revenue recognised was in line with the Charities SORP.  Reviewed the latest Charities SORP accounting	We reviewed a sample of grant income and found that all transactions had been accounted for appropriately in line with the SORP.  NLS have adjusted for the £493,000 deferred income by moving this to the Designated

Audit Risk	Assurance procedure	Results and conclusions
<p>immediately when there is evidence of entitlement. NLS should not defer such grant income.</p> <p>The outgoing auditors, PwC, noted in their 2015/16 report that total deferred income was £493,000 last year i.e. the value of income which potentially should have been recognised in year. This was below the materiality set by the auditors.</p> <p>Nevertheless, this presents a risk that grant income may not be accounted for in accordance with the SORP accounting framework in 2016/17.</p>	<p>requirements.</p>	<p>Purpose Fund to recognise this as income in the year. This treatment is in accordance with the SORP accounting framework.</p>

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

<b>4 Financial sustainability</b> <p>NLS, similar to other public sector bodies, face challenges over future funding allocations during this period of economic uncertainty. The main financial target for NLS is to achieve a break even position at year-end. NLS are projecting to achieve a small underspend for financial year 2016/17.</p> <p>Although NLS are on course to meet its financial target in 2016/17, 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.</p>	<p>Regular review of finance reports presented to the Board and Audit Committee.</p> <p>Focused cut off testing at year-end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>We conclude that NLS have adequate financial planning arrangements in place, but with scope to develop their savings plans in 2018/19 and 2019/20.</p> <p>Our substantive testing focused on regularity and cut-off assertions to ensure expenditure and income transactions were accounted for in the correct financial year. There were no issues to report.</p>
<b>5 IT strategy and plans</b> <p>There is currently no Information Technology (IT) strategy or overarching IT plan in place at NLS. This should be a priority given NLS's objective to digitise their collection over the coming years and also due to the recent IT incidents which have occurred. Furthermore, there are IT policies, such as the Information Security Policy and IT Business Continuity Plans, which require reviewing and updating to ensure these are fit for purpose.</p>	<p>Monitored the development of the NLS IT strategy and reviewed plans where available.</p> <p>We will continue to monitor the review process of IT policies and procedures and ensured these are fit for purpose.</p>	<p>NLS have now developed a new Digital Roadmap which sets out the Library's IT plans for 2017-2020.</p> <p>The Information Security Policy is being revised and is due for completion in late summer 2017.</p> <p>Business Continuity Plans (BCP) have been developed with the assistance of an external advisor. Good progress has made to formalise BCP arrangements. However, further BCP testing is needed to fully test these new plans put in place.</p>

# Appendix 3

## Summary of national performance reports 2016/17



	Month	Report Title	Icon	Icon	Report Title
	Apr				
	May	Common Agricultural Policy Futures programme: an update			
	Jun	South Ayrshire Council: Best Value audit report			The National Fraud Initiative in Scotland
	Jul	Audit of higher education in Scottish universities			Supporting Scotland's economic growth
	Aug	Maintaining Scotland's roads: a follow-up report			Superfast broadband for Scotland: a progress update
	Sept	Social work in Scotland			Scotland's new financial powers
	Oct	Angus Council: Best Value audit report			NHS in Scotland 2016
	Nov	How councils work – Roles and working relationships in councils			Local government in Scotland: Financial overview 2015/16
	Dec	Falkirk Council: Best Value audit report			East Dunbartonshire Council: Best Value audit report
	Jan				
	Feb	Scotland's NHS workforce			
	Mar	Local government in Scotland: Performance and challenges 2017			i6: a review
					Managing new financial powers: an update

# National Library of Scotland

## Annual Audit Report 2016/17

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