

Government and Public Sector

November 2006

# National Library of Scotland

## Annual Report to Board Members

2005/06 Audit

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National Library of Scotland  
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Audit Scotland  
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13 November 2006

Our ref: LP/SD/FW

Ladies and Gentlemen

**Annual Report to Board Members 2005/06**

We have completed our audit of the National Library of Scotland (“NLS”) and its financial statements for the year ended 31 March 2006.

The Annual Report which follows is primarily designed to direct your attention to the key matters that have arisen out of the 2005/06 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

We would like to take this opportunity to offer our thanks to those members of management and staff who have assisted us during the course of the audit.

Yours faithfully

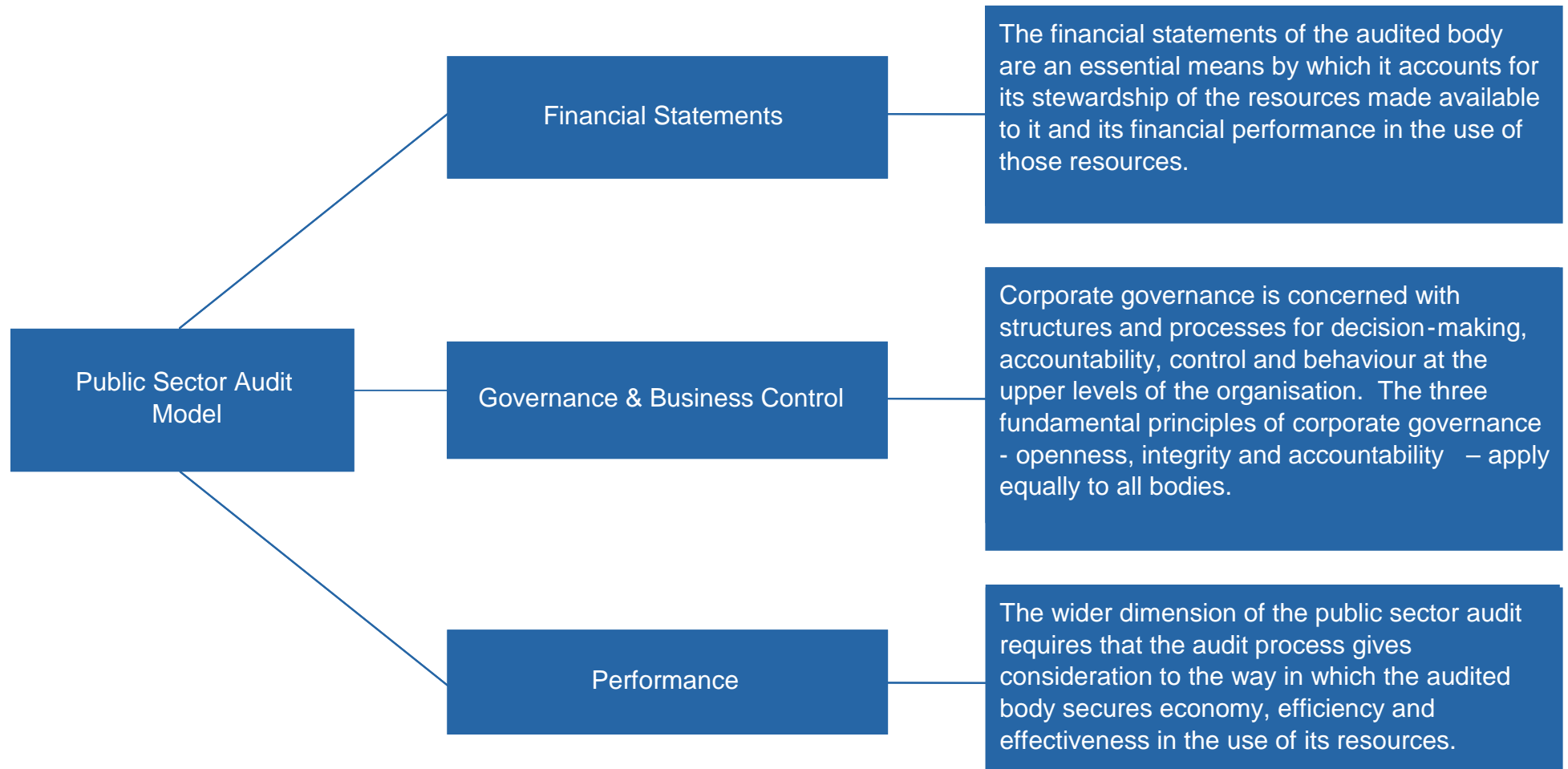
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# Our report structure (continued)

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# 1. Audit Opinions and Financial Targets

## Our Audit Opinion

- 1.1 Our audit opinion concerns both the true and fair statement of NLS's financial results for the year ended 31 March 2006 (2005/06) and the regularity of its income and expenditure in the year.
- 1.2 Our true and fair opinion on the financial statements is unqualified.
- 1.3 Our regularity opinion on income and expenditure is unqualified.
- 1.4 Our opinion is set out in full in **Appendix 3**

## Financial Targets

- 1.5 NLS's key financial target is to manage expenditure within income on a year by year basis. In 2005/06, this target was achieved. NLS has no other financial targets set for it by the Scottish Executive or other bodies, though it is expected that Value for Money is achieved. A summary of the financial performance of NLS during 2005/06 is given in Section 2 of this report.

## Other Performance Targets

- 1.6 NLS has a variety of Performance Indicators as detailed in its Corporate Plan 2005-2008. These are linked to the stated corporate objectives of the organisation and cover the following areas:
  - Developing the Collections;
  - Widening Access;
  - Consultation and Communication;
  - Collaboration and Partnerships;
  - Organisational Development; and
  - Infrastructure.
- 1.7 NLS has included details of its performance against these targets in the Annual Report within the Annual Accounts and we have reviewed this. We did not find anything that was inconsistent with the findings of our audit.

## 2. Financial Performance and Position

### Financial Performance for 2005/06

<u>Overall Financial Out-turn Reported for 2005/06</u>	<b>2005/06</b>	<b>2004/05</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Income</b>			
Grant-in-Aid	12,474	11,346	1,128
Gross Income from Grant-Aided Activities	214	435	(221)
Net income from Revenue-Earning Activities	29	44	(15)
Donations to Trust Funds and Bequests	4	19	(15)
<b>Total Income</b>	<b>12,721</b>	<b>11,844</b>	<b>877</b>
<b>Expenditure</b>			
Salary Costs	8,038	7,235	803
Operational Costs	4,159	3,634	525
Expenditure on Trust Funds & Bequests	102	88	14
Depreciation and Permanent Diminution in Value	1,965	1,905	60
<b>Total Expenditure</b>	<b>14,264</b>	<b>12,862</b>	<b>1,402</b>
<b>Operating (Deficit) / Surplus</b>	<b>(1,543)</b>	<b>(1,018)</b>	<b>(525)</b>
Investment & Other Income	546	435	111
Notional Interest on Capital Employed	(2,269)	(2,323)	54
<b>Deficit for the financial year after notional costs</b>	<b>(3,266)</b>	<b>(2,906)</b>	<b>(360)</b>
Reversal of Notional Interest on Capital Employed	2,269	2,323	(54)
Transfer (to) / from Capital Asset Fund	918	502	416
Release from Revaluation Reserve	116	435	(319)
<b>Amount transferred to Reserves</b>	<b>37</b>	<b>354</b>	<b>(317)</b>

## Financial Out-turn 2005/06 - Commentary

- 2.1 As can be seen from the figures above, NLS achieved an overall surplus of £37,000 in 2005/06. Although the surplus has decreased by £317,000 when compared to the previous year, it still represents a saving against the budgeted breakeven position.
- 2.2 When compared to performance in the previous year, the key areas in which variances have been noted are:
- an increase in the Grant-in-Aid funding receivable from the Scottish Executive of £1,128,000;
  - an increase in staff costs of £803,000; and
  - additional operating charges of £525,000.
- 2.3 **Grant-in-Aid:** The Scottish Executive has increased the grant-in-aid allocated to NLS to allow NLS to address the increased cost pressures set out below.
- 2.4 **Staff Costs:** In common with organisations across the public sector NLS salary costs have increased significantly. The additional costs of £803,000 are mainly due to the impact of the in-year pay award, the increase in pension contributions and the recruitment of additional staff. In particular, additional employees have been recruited to facilitate fund raising in respect of the John Murray Archive.
- 2.5 **Operating Costs:** There has been significant expenditure of repairs and maintenance for the George IV building which has increased expenditure in this category by £183,000. Rising energy costs also lead to additional expenditure of £150,000 in 2005/06, and there has been increased expenditure in relation to the acquisition of the John Murray Archive of £108,000.
- 2.6 **John Murray Archive:** As noted above, the acquisition of the John Murray Archive during 2005/06 has had an impact on the financial position. We have provided further detail about the transaction within Section 4 of this report.
- 2.6 Overall, NLS has performed well financially during the year and is taking action to address future cost pressures.

# 3. Forecast Financial Position for 2006/07

## 2006/07 Projected Position

3.1 We have summarised the projected 2006/07 financial position as given in the Corporate Plan for the National Library of Scotland in the table below:

<b>Income and Expenditure Summary</b>	
	<b>£'000</b>
General Grant-in-Aid	12,154
Purchase Grant	1,300
Other income	1,183
<b>Total income</b>	<b>14,637</b>
Staff costs	8,868
<b>Departmental costs</b>	
Customer Services	227
Collection Development	1,807
Strategy and Communications	275
Development	140
Corporate Services	3,320
<b>Total expenditure</b>	<b>14,637</b>

3.2 The above demonstrates a breakeven budget for 2006/07. However, it is anticipated that there will be various cost pressures which will impact upon NLS in the forthcoming year. In particular:

- the increased skills and capacity which NLS has developed in recent years in new areas such as marketing, education, strategy, development and digital services places pressure on revenue budgets. In particular, investment in buildings, equipment and maintenance has been squeezed and is now under pressure, leading for example, to difficulty in renewal of exhibition cases and funding for shelving for routine storage needs; and
- the full year cost of energy increases for 2006/07 are estimated at £250,000, largely composed of an additional £227,000 for electricity (and around £23,000 for gas).



- 3.3 As highlighted earlier, NLS is aware of a number of cost pressures it faces. It is important that these cost pressures continue to be the subject of management review to ensure the normal breakeven budget is achieved. **Action Point 1**
- 3.4 The John Murray Archive will continue to be a major focus for NLS in 2006/07 and following years: the terms of the purchase are such that NLS still has to pay a further £11.2 million for the Archive over the next five years. NLS currently has £5.4 million ear-marked for the purchase and has to raise a further £5.8million. This represents a significant fund-raising challenge. **Action Point 2**

# 4. The Audit Process and Accounting Issues

## **Audit Process**

- 4.1 The start of our audit of the final accounts was delayed by two months, due to the illness of a key member of staff. However, draft financial statements were audited by us during September 2006 and we are pleased to report a significant improvement in the quality of the audit working papers and in the completeness and timeliness of the financial statements presented to us for audit. We would like to thank the Director of Corporate Services, the Finance Manager and the rest of the finance team for their assistance throughout the audit process.

## **Preparation of Financial Statements**

- 4.2 The financial statements were prepared in accordance with the accounting requirements contained in the Charities SORP 2005 and supplementary guidance as issued by the Scottish Executive Education Department (SEED) and approved by the Scottish Ministers.
- 4.3 The Charities SORP 2005 came into effect in 2005/06 and we were pleased to note that the draft accounts presented to us for audit were largely compliant with the requirements of the new SORP.

## **Accounts Approval**

- 4.4 The Annual Accounts have been issued to the Audit Committee for review and will be recommended in due course to the Meeting of the Board of Trustees for adoption and approval.

## **Audit Adjustments**

- 4.5 Management has been informed of audit adjustments required to the format of our figures within the financial statements presented to us for audit. These have been accepted by management and changes made as advised.

## **John Murray Archive**

- 4.6 The John Murray Archive ("JMA") was acquired by NLS during 2005/06 for an agreed purchase price of £31.2 million. NLS has paid £20 million so far for the JMA and the remaining £11.2 million will be paid over the course of the next 5 years. Currently, NLS has cash balances of £5.4 million ear-marked for JMA, leaving a further £5.8 million to be raised.
- 4.7 The £11.2 million owed by NLS is shown in the accounts as a creditor, with £1 million due to be paid within one year and the remaining £10.2 million due in more than one year. This reflects NLS's intention to make an initial payment to John Murray of £1 million in March 2007 (the first anniversary) of the agreement.

# 5. Systems of Internal Control

## Statement of Internal Control

- 5.1 We do not disagree with NLS's disclosures contained in the Statement on Internal Control. NLS has used the format prescribed in the Scottish Public Finance Manual Accounts and has outlined its processes to identify and evaluate risks. In addition, key elements of NLS's control framework have been highlighted including internal and external audit and risk management.

## Financial Systems and our 2005/06 Internal Controls Report

- 5.2 At our interim visit, we reviewed the following areas, relying on the work of internal audit where appropriate:
- internal audit;
  - financial management and budgetary control;
  - prevention and detection of fraud and corruption;
  - the legality of financial transactions; and
  - rotational review of key systems of financial control, specifically the payroll and purchasing cycles.
- 5.3 A total of two control issues were reported to management in our Interim Management Letter in March 2006. The key issue identified related to the effective allocation of responsibilities between the Management Accountant and the Finance Manager. We are pleased to report that with regards the second recommendation made in our interim management letter, management had taken action to ensure that the accounting treatment of the John Murray Archive and the new Charities SORP had been considered prior to our final audit visit.
- 5.4 A number of minor control points were noted during the course of our final audit. These will be reported to management in our Final Management Letter.

### Follow Up Report on previous control matters

- 5.5 Our follow up report on our 2004/05 control recommendations was issued in March 2006. At that time, of the 76 agreed recommendations made in our 2004/05 reports, 12 were classed as not yet implemented, with 45 recommendations being partially implemented and 7 where the deadline had not yet passed.
- 5.6 During the course of our final audit, we were informed that management has undertaken an exercise to review the recommendations within the follow up report with a view to reducing the number of outstanding recommendations. The outcome of this review is that of the 76 recommendations highlighted above, 49 are now classed as fully implemented, 13 as partially implemented and 4 as not yet implemented. There are 5 recommendations where the agreed deadline has not yet passed and a further 5 have been removed as no longer valid either because of timing or because they have been superseded by other recommendations. This update by management will be passed to Internal Audit for validation in due course.
- 5.7 Our Follow-Up report will be provided to next year's external auditors, Audit Scotland, in order that ongoing progress can be monitored.

### Action Point 3

### Internal Audit's Report on NLS's Internal Controls

- 5.8 An extract of the Internal Auditor's opinion for 2005/06 is reproduced below:

*"In my opinion the National Library of Scotland has a framework of control, capable of providing reasonable assurance regarding the effective and efficient achievement of the Library's objectives. However we have identified an increasing number of individual systems of control which need to be enhanced, and we are concerned that the Library is encountering difficulties addressing these.*

*We have taken into account the fact that the Library is continuing to undergo significant change and this is likely to continue for the next few years. This level of change has generated significant extra work particularly in the areas of Finance and the Corporate Services Directorate and continues to do so.*

*In the past we have identified many signs of positive action to address the range of outstanding control issues identified in our audits and measurable improvement plans are being implemented. We have also encouraged the Audit Committee to support these initiatives and maintain a continuing review of their progress. In particular the range of actions planned to mitigate the identified risks recorded in the Library's risk register.*

*We would draw the Audit Committee's attention to our concern that a significant number of the actions required to address many of the proposed improvements in control are falling on a very limited team of staff. This along with the pace of external change imposed on the Library, which is largely impacting the same small group of staff, is delaying the implementation of improvements to the control environment.*

*The Audit Committee are advised to monitor management progress in addressing these issues and ensure that improvements are being achieved at a pace which satisfies the requirements of the Committee members' responsibilities."*

- 5.9 It is important that recommendations from both internal and external audit are implemented within agreed deadlines and, where this is not occurring, the Audit Committee should challenge management so that any issues preventing the implementation of these recommendations can be identified and addressed at an early stage.

### Action Point 4

# 6. Governance Arrangements

## **Governance Arrangements at National Library of Scotland**

- 6.1 As part of the requirements of the Code of Audit Practice we undertook a review of the arrangements in place within NLS for ensuring appropriate financial governance arrangements. Our findings and recommendations from this review were included in our Interim Management Letter. No significant issues relating to governance were identified.
- 6.2 In addition to that review we followed-up on prior year recommendations (refer also to Section 5), including the recommendations made in prior years in relation to the arrangements for securing appropriate governance.

## **Risk Management**

- 6.3 Risk management is defined as “a systematic process for identifying, assessing, controlling, monitoring, reviewing and auditing risk.” Effective risk management is of importance to NLS as adverse consequences of risk could place limitations on service delivery and put a strain on staff and financial resources. To fulfil this requirement the Trustees are required to implement a robust and effective framework for the management and understanding of risk. The framework should be developed by building on existing good practice and should be used to facilitate the organisation’s planning and decision making process.
- 6.4 Our review indicated that during 2005/06 the Corporate Risk Register had been updated and it is our understanding that there are plans to update the register on a quarterly basis, in line with Audit Committee meetings.
- 6.5 In addition we were pleased to note that each Directorate has now produced an operational level risk register, which will be used to inform and update the Corporate Risk Register. It is important that this process continues, and we have recommended in previous reports, that the development of risk management arrangements continues and becomes embedded in all processes within the organisation.

# 7. Prevention and Detection of Fraud and Irregularities

## **Fraud and Corruption Reviews**

- 7.1 As part of our rotational plan to review the key mechanisms for the prevention and detection of fraud and corruption we have reviewed NLS's overall arrangements, together with the key controls surrounding payroll. No control weaknesses which require to be reported to management were identified other than those already raised in prior years. Again progress has been detailed in our separate Follow Up report.

## **Fraud and Irregularities Guidance**

- 7.2 We have reviewed the fraud and irregularities guidance issued by Audit Scotland during 2005/06 and undertaken work accordingly. There were no matters for reporting here from this work.

## **Fraud Submission**

- 7.4 A return is submitted to Audit Scotland of all reported frauds during the year. NLS submitted a nil return for the year.

## **Termination Packages**

- 7.5 No termination package was paid during the year by NLS.

# 8. Best Value Follow Up

- 8.1 As part of the 2004/05 audit process, we undertook a Best Value review. This review was in the form of a self-assessment based upon initial guidance provided by the Scottish Executive. An action plan was agreed with management and we have discussed progress in implementing the recommendation with management.
- 8.2 Our report contained four recommendations and, although the agreed implementation dates have not been reached for each objective, we were informed that action is already underway. This is summarised below the actions taken to date in respect of each recommendation.
- 8.3 **Recommendation 1:** *NLS should ensure that appropriate tools are developed for monitoring performance, with the needs of the different user-groups taken into account. The planning cycle should include stakeholder consultation at the most appropriate points i.e. forming the strategy, monitoring progress and reporting results. (Implementation date: March 2007).* This process is one of continuous improvement. Actions implemented include Usability studies and the development of customer standards. Feedback from stakeholder surveys is fed into the corporate planning process.
- 8.4 **Recommendation 2:** *NLS should consider involving other organisations on their Reviews. An external representative could sit on the Review Board or the Review Team. This would help to make the process more independent and hence challenge. NLS could also use this process to share best practice. (Implementation Date: October 2006).* This has been agreed in principle and has been included in internal review guidance notes. It has yet to be put into practice as there have been no Reviews in the intervening period.
- 8.5 **Recommendation 3:** *Sustainability covers a wide range of issues relevant to NLS diverse as: widening access and education programmes; energy efficiency; travel to Library locations; and pricing policies. NLS should ensure that all areas of sustainable development are considered in the deployment and deliver of corporate objectives. NLS should develop performance indicators to measure performance in key areas of focus e.g. number of individuals with readers tickets from socially deprived areas; Percentage of paper recycled etc. (Implementation date: March 2007).* A policy has been developed and targets agreed with the Scottish Executive. While we were informed that some of the targets have been achieved, this has yet to be documented.
- 8.6 **Recommendation 4:** *Central coordination of partnership activity should be introduced into the organisation with the results fed into the strategic management model. NLS should identify similar organisations with whom to participate in benchmarking activities. Different organisations could be used for various functions/activities (Implementation date: September 2006).* Two bench-marking exercises have been undertaken during the year that have included participation with other organisations.

**Action Point 3**

# Appendix 1: Action Plan

	Report Ref.	Issue	Risk	Recommendation	Management Response	Responsible Officer/Due Date
1	3.3	NLS is facing a number of cost pressures that may prejudice the delivery of the planned break-even budget.	NLS may not achieve its financial target to break-even	NLS should continue to monitor financial performance closely over the next financial year.	NLS has effective methods of monitoring financial performance. The monthly budget monitoring process ensures that spending remains on target. Contingencies are provided for in the annual budget allocation and required adjustments made at the half year outturn.	Duncan Campbell Ongoing.
2	3.4	NLS has to raise £5.8million over the next 5 years in order to fund the acquisition of the John Murray Archive.	This represents a significant fund-raising challenge that could lead to significant pressure on the delivery of other services in the event that funds cannot be raised externally.	NLS should have contingency plans in place to ensure the full debt can be paid when it falls due, without impacting on the delivery of other Library services.	This was identified as part of the risk assessment process within the JMA programme. Actions taken to minimise the likelihood of failure include the recruitment of Director of Development with the supporting resources to deliver the required outcomes. Progress is currently ahead of schedule. In the unlikely event of failure within the set timescales, the excellent relationships maintained with John Murray would allow discussions to be entered into to agree extensions.	Senior Management Team Ongoing
3	5.7 8.2	Recommendations remain outstanding from the following reports: <ul style="list-style-type: none"> <li>• 2005/06 Follow Up Report ; and</li> <li>• Best Value Report 2004/05.</li> </ul>	Identified weaknesses in NLS systems may not have been corrected.	Management should ensure that agreed recommendations are implemented with agreed timescales.	Agreed. As far as possible, NLS seeks to implement within agreed timescales. This will be focused on addressing recommendations marked as High Priority first. However, where resources are allocated to other, more pressing activities, deadlines for lower priority recommendations may be reset.	Duncan Campbell Ongoing



4

Report Ref.	Issue	Risk	Recommendation	Management Response	Responsible Officer/Due Date
5.9	There have been delays in the implementation of recommendations made by both internal and external audit.	Identified weaknesses in NLS systems may not have been corrected.	Where NLS is failing to implement recommendations within the agreed deadlines, an explanation should be provided to the Audit Committee, along with details of actions taken to resolve the situation.	The Audit Committee is now receiving regular updates on agreed actions. Where deadlines are not met, explanations will be provided and new timescales agreed.	Duncan Campbell Ongoing

# Appendix 2: Responsibilities of External Audit and the National Library of Scotland and its Management

The matters dealt with in this report came to our notice during the conduct of our normal audit procedures which we carried out in accordance with the framework and principles contained within the Audit Scotland's Code of Audit Practice.

As a result, we may not have identified all the issues and matters that may exist. It is the responsibility of the National Library of Scotland and its management to maintain adequate and effective financial systems and to arrange for a system of internal controls. To discharge our audit responsibility we evaluate significant financial systems and associated internal controls and where appropriate, report to management any weaknesses identified. In practice, we do not examine every financial activity and accounting procedure and we cannot substitute for management's responsibility to maintain adequate systems of internal control.

This report is intended to assist the National Library of Scotland regarding its arrangements to implement appropriate controls surrounding the production of certain management information and processing systems. The report does not purport to provide information or advice to any person not associated with the National Library of Scotland and we accept no responsibility to such persons. Specifically, the report should not be interpreted as providing legal advice to the National Library of Scotland or any other party.

The prime responsibility for the prevention and detection of fraud and irregularities rests with the National Library of Scotland. It also has a duty to take reasonable steps to limit the opportunity for corrupt practices. As part of our approach we consider these arrangements, but our work does not remove the possibility that fraud, corruption or irregularity has occurred and remained undetected.

It is the responsibility of the National Library of Scotland and its officers to prepare the Accounts in compliance with statutory and other relevant requirements. We are responsible for providing an opinion on the Accounts.

It is the responsibility of the National Library of Scotland to put in place proper arrangements to ensure the proper conduct of its financial affairs, and to monitor their adequacy and effectiveness in practice. We have a responsibility to review and, where appropriate, report on the financial aspects of the audited body's corporate governance arrangements, as they relate to:

- The legality of transactions that might have significant financial consequences;
- The financial standing of the audited body;
- Systems of internal financial control; and
- Standards of financial conduct, and the prevention and detection of fraud and corruption.

It is the responsibility of the National Library of Scotland to put in place proper arrangements to manage its performance, to secure economy, efficiency and effectiveness in its use of resources. We have a responsibility to review and, where appropriate, report on the arrangements that the National Library of Scotland has put in place to secure economy, efficiency and effectiveness in its use of resources.

We also have a responsibility to undertake reviews arising from national studies commissioned by Audit Scotland where these have been designated as mandatory studies.

For more details on any of the issues raised in this document reference should be made to those detailed reports issued by us to the National Library of Scotland during the year and as listed at **Appendix 4**.

# Appendix 3: Audit Opinion

## **Independent auditor's report to the members of National Library of Scotland, the Auditor General for Scotland and the Scottish Parliament**

We have audited the financial statements of the National Library of Scotland for the year ended 31 March 2006 under the National Heritage (Scotland) Act 1985. These comprise the Income and Expenditure Account, the Statement of Financial Activities, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## **Respective responsibilities of the board, Accountable Officer and auditor**

The board and Accountable Officer are responsible for preparing the annual report and the financial statements in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Accountable Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

We report our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers. We also report whether in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. We also report if, in our opinion, the Foreword is not consistent with the financial statements, if the body has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects the body's compliance with the Scottish Executive's guidance. We report if, in our opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

We read the other information contained in the annual report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Foreword and the Report of the Trustees. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## **Basis of audit opinion**

We conducted our audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the board and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

## **Opinion**

### *Financial statements*

In our opinion

- the financial statements give a true and fair view, in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2006 and of its surplus, total recognised gains and losses and cash flows for the year then ended; and
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the National Heritage (Scotland) Act 1985 and directions made thereunder by the Scottish Ministers.

### *Regularity*

In our opinion in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

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*13 November 2006*

# Appendix 4: Other formal reports submitted during the 2005/06 process

	Financial Statements	Governance & Business Control	Performance
• Annual Service Plan 2005/06	-	-	-
• Follow Up of 2004/05 Audit Recommendations	✓	✓	✓
• 2005/06 Interim Management Letter	✓	✓	-
• 2005/06 Final Management Letter	✓	✓	-

*This report is intended solely for the information of the National Library of Scotland. In the event that, pursuant to a request which the National Library of Scotland received under the Freedom of Information (Scotland) Act 2002, it is required to disclose any information contained in this External Audit Report, it will notify PwC promptly and consult with PwC prior to disclosing such External Audit Report. National Library of Scotland agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the National Library of Scotland shall apply any relevant exemptions which may exist under the Act to such External Audit Report. If, following consultation with PwC, National Library of Scotland discloses this External Audit Report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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