

National Library of Scotland

Report on the 2007/08 Audit



October 2008



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Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the National Library of Scotland (NLS). We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial Position

NLS operated within the budget limits set by the Scottish Government for capital spending and operating expenditure and over the year its net asset position increased by £2.592 million to £107.990 million.

On the 1st April 2007 Scottish Screen Archive (SSA) merged with NLS. The income and expenditure account prior year figures have been restated and the opening balance sheet has been restated to reflect the acquisition of SSA fixed assets.

Scottish Ministers have agreed a resource budget for NLS of £19.542 million for 2008/09, comprising an operating budget of £13.834 million and a capital budget of £5.708 million.

Financial Statements

We have given an unqualified opinion on the financial statements of NLS for 2007/08.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Performance

NLS reported achievement of its cash releasing target of £0.2 million set by the Scottish Government over the three year period ending 31 March 2008. In the next three year budget settlement NLS is required to make efficiency savings through reduction of Grant in Aid of 0% per annum for 2008/09 and 3% for each of 2009/10 and 2010/11. The library must demonstrate that it can afford these savings through efficiencies of 2% per annum for the next three years commencing 2008/09. This will be a significant challenge given this is an increase in the target and exceeds the savings achieved in the previous three year period. It will be a challenging target for NLS to meet given wider budget constraints and spending priorities.

NLS has reported achievement of all of the six agreed performance targets set by the Scottish Government for 2007/08, including the cash releasing target referred above. Discussions are underway with the Scottish Government in relation to improvements in the ways that the performance of NLS can be assessed for 2008/09.



A new Strategic Plan for the period 2008-2011 has been drafted and is awaiting the approval of Scottish Government. The document "Expanding our Horizons" describes the four Strategic Themes and 20 supporting objectives that will guide the activities of the Library. The themes are: developing the national collections; developing the organisation; building relationships; and widening access to knowledge.

Best Value

NLS completed a baseline review of its best value arrangements in 2005/06. Since that time, there have been improvements in the governance of the Library with a number of the changes suggested at the time of the initial review having subsequently been implemented.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for NLS operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

The Management Statement/Financial Memorandum for NLS has not been revised since September 1993. The Scottish Government has indicated that there will be a delay to the update because of the work on the reporting framework.

Looking forward

The final part of our report notes some key risk areas and issues for NLS going forward. We highlight a number of national issues which affect all public sector bodies including NLS, such as the National Performance Framework and the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangements in public bodies across Scotland. NLS also faces financial pressure over the next three years against a background of tighter funding constraints. Other specific risks affecting NLS include the incorporation of the Agency for the Legal Deposit Libraries as a subsidiary company of NLS on the 16th September 2008.

The assistance and co-operation given to us by staff and the Board of Trustees during our audit is gratefully acknowledged.

Audit Scotland
October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of the National Library of Scotland (NLS). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 23 June 2008. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the NLS agreed response.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by staff and the Board of Trustees of NLS' during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Position

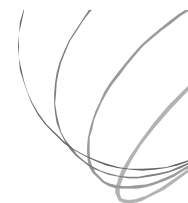
4. In this section we summarise key outcomes from our audit of the NLS financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of NLS and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Report of the Board of Trustees included in the Annual Report with the financial statements, and
 - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the National Librarian as accountable officer to obtain assurances on systems of internal control, and
 - assessing whether disclosures in the statement are consistent with our knowledge of NLS.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of NLS for 2007/08.
8. As agreed the unaudited accounts were provided to us on the 4th August as planned which was a significant improvement on the position from previous years. The good standard of the supporting papers and the timely responses from NLS's staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on the 23rd September as planned.



Financial Position

Outturn 2007/08

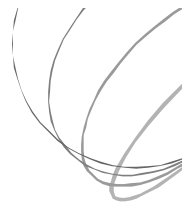
9. NLS is required to work within the budget limits set by the Scottish Government. The final grant in aid set by the Scottish Government for NLS during 2007/08 totalled £20.142 million. This figure comprises an operating budget and a capital budget and includes non- cash items. The capital budget includes a specific amount of £1.3 million to fund the procurement of additions to the NLS collections. NLS operated within the budget limits set by the Scottish Government for capital and operating expenditure and drew down its full cash grant in aid entitlement of £15.734 million.
10. On the 1st April 2007 Scottish Screen Archive (SSA) merged with NLS. The income and expenditure account prior year figures have been restated and the opening balance sheet has been restated to reflect the acquisition of SSA fixed assets.
11. The FReM requirement to account for grant-in-aid as a credit to reserves rather than as income has resulted in NLS reporting an excess of expenditure over income of £12.913 million for 2007/08 (2006/07 restated: £11.948 million). The operating grant-in-aid credited to reserves for 2007/08 was £13.984 million (2006/07 restated: £12.413 million). The NLS net asset position increased to £107.990 million (2006/07 restated: £105.398 million).

2008/09 Budget

12. Scottish Ministers have agreed a resource budget for NLS of £19.542 million for 2008/09. This comprises:
 - £13.834 million grant in aid for running costs, 5.1% more than the core funding provided in 2007/08;
 - a purchase grant of £1.3 million which is the same as 2007/08, and
 - £4.408 million to cover non-cash costs.
13. NLS recognise that an increase in planned commitments for 2008/09, together with an increase in salary costs, will create pressure on the budget. NLS will need to make savings in order to match budgets to the available resources.

Issues arising from the audit

14. As required by auditing standards we reported to the audit committee on 23 September 2008 the main issue arising from our audit of the financial statements. The key issue is reported below.



15. **Refund of VAT-** In 2007-08, consultants were commissioned to review the Library's VAT arrangements. The review identified that, for a number of years, the Library had not been claiming its full entitlement to VAT refunds and, as a result, a claim for £1.582 million of underclaimed VAT was submitted to HM Revenue & Customs in March 2008, and the claim was subsequently paid in May 2008. However, the Library is still to confirm with the Scottish Government its entitlement to keep any or all of the refund relating to prior years, and the first draft account only reflected the current year's element of the refund (£0.284 million). As the Library is currently discussing this matter with the Scottish Government, a debtor balance of £1.298 million relating to the refund for prior years should be reflected in the account with a matching creditor balance with the Scottish Government. The final accounts were amended to reflect these balances.

Regularity Assertion

16. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Governance

Overview of arrangements

17. This section sets out our main findings arising from our review of NLS governance arrangements. This year we reviewed:
- key systems of internal control; and
 - internal audit.
18. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 9 to 11). Our overall conclusion is that arrangements within NLS are sound and have operated through 2007/08.

Strategic Aims

19. The Library is redefining its approach to preparing, producing and publishing plans. A new Strategic Plan for the period 2008-2011 has been drafted which updates the strategic statements contained in the previous 2004 document *Breaking through the Walls*. The document "*Expanding our Horizons*" describes the four Strategic Themes and 20 supporting objectives that will guide the activities of the Library. The themes are: developing the national collections; developing the organisation; building relationships; and widening access to knowledge. It is awaiting the approval of Scottish Government.
20. NLS is also preparing the "*Bridge*" a document that will include both the strategies and objectives of the Library (from the Strategic Plan) and those of the Scottish Government (from the *Scottish Government Spending Review 2007*). The aim of the document is to demonstrate how the work of the Library will contribute to the public, social, educational and economic objectives. This document will be approved by the Scottish Government and published externally.
21. In addition NLS is producing a Corporate Business Plan for 2008/09 which details the issues, constraints and opportunities perceived by the Library, and outlines the activities to be undertaken and the objectives for the year. The plan includes the budget for the year and will be approved by the Trustees and published externally after consultation with Scottish Government. The plan will be reviewed on an annual basis. The delivery of the strategic plan objectives will be particularly challenging given the tight financial constraints over the same period. This is an area we will keep under review during our appointment.



Systems of internal control

22. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2007/08 Baker Tilly provided their opinion that, based on the internal audit work undertaken during the year, there was adequate assurance on the adequacy and effectiveness on the systems of internal control. The level of assurance reflected weaknesses in the sales ledger procedures and business continuity planning which are being addressed in 2008/09.
23. As part of our audit we reviewed the high level controls in a number of NLS systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.
24. Departmental Accountable Officers are responsible for putting in place an appropriate framework for sponsored bodies consistent with the model Management Statement/Financial Memorandum (MS/FM) set out in the Scottish Public Finance Manual (SFPM). The SFPM requires that the MS/FM is reviewed and updated periodically by the Sponsor Directorate within the Scottish Government, normally at least every 2-3 years. The MS/FM for NLS has not been updated since September 1993 and includes a number of outdated provisions, including many references that have been overtaken by the introduction of resource accounting and the impact of devolution. The Scottish Government has indicated that there will be a delay to the update because of the work on the reporting framework.

Prevention and detection of fraud and irregularities

25. NLS has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

Internal Audit

26. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2007/08 audit we assessed whether we could place reliance on NLS internal audit function provided by Baker Tilly. We concluded that Baker Tilly operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan.



Statement on Internal Control

27. The Statement on Internal Control provided by the NLS Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out the NLS approach to this.

Information and Communication Technology

28. During 2007/08, Baker Tilly undertook a review of ICT services and concluded that in general, the ICT function appears to be operating well with the exception of weaknesses in business continuity planning and disaster recovery planning. We have taken assurance from the internal audit work in this area.

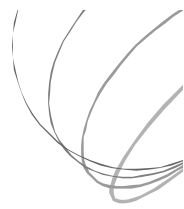


Performance Management

29. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
30. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Best Value developments

31. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.
32. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.
33. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.
34. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.
35. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.



36. NLS completed a baseline review of its best value arrangements in 2005/06. Since that time, there have been improvements in the governance of the Library with a number of the changes suggested at the time of the initial review having subsequently been implemented. These include the recruitment of non-executive directors onto the Management Board and the Audit Committee; the agreement of a sustainable development policy to consider the social, economic and especially environmental impact of policies and practices; and the adoption of a new planning policy for 2008/9 onwards.

Efficiency

37. Thus was the last year of the three-year efficiency programme. NLS's target for the efficient Government Plan for the three years to 2007/08 were £0.2 million of cash releasing efficiency savings. NLS has reported cash releasing savings of £0.276.
38. In the next three year budget settlement NLS is required to make efficiency savings through reduction in Grant in Aid of 0% per annum for 2008/09 and 3% for each of 2009/10 and 2010/11. The library must demonstrate that it can afford these savings through efficiencies of 2% per annum for the next three years commencing 2008/09. This will be a significant challenge given this is an increase in the target and exceeds the savings achieved in the previous three year period. It will be a challenging target for NLS to meet given wider budget constraints and spending priorities.

Performance Management

39. NLS has six agreed performance indicators for 2007/08 set by Scottish Government covering; increases in reader numbers; maintaining a balance of participation in specified visitor groups; support for regional library networks; raising funds towards the target of £6.5 million of self generated income for the John Murray Archive by 2010/11; reducing the amount of grant aid per reader; and delivering cash releasing efficiency savings of £0.2 million for the three year period ending 31 March 2008.
40. NLS are required to report to the Scottish Government on the achievement of these indicators on a quarterly basis. In 2007/08 NLS has reported achievement all of its targets. Discussions are underway with the Scottish Government in relation to improvements in the ways that the performance of NLS can be assessed for 2008/09.
41. NLS also maintain a suite of Key Performance Indicators covering a broader range of activities which are reported to the Senior Management Team and the Board of Trustees on a regular basis.



National Studies

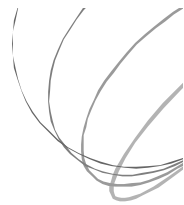
42. NLS has not been involved in any of Audit Scotland's national studies.



Looking Forward

43. NLS faces a number of challenges in 2008/09, which include:

- **Acquisition of subsidiary** – On the 16 September 2008, the Agency for the Legal Deposit Libraries (ALDL) was incorporated as a subsidiary company of the NLS. NLS will need to consider the implications on the accounts and audit process of this acquisition. We will monitor this as part of our 2008/09 audit.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how the National Library of Scotland is addressing this developing area as part of the 2008/09 audit.
- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for the National Library of Scotland is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. An interim report published in April 2008 made some initial recommendations and a final report is expected soon. We will monitor the National Library of Scotland's response to the review and action taken as part of our 2008/09 audit.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. However, this timetable does not apply to registered charities, such as NLS, which will be required to follow a slower timetable for convergence agreed by the UK



Accounting Standards Board. A detailed timetable and list of requirements for all central government bodies in Scotland has been issued by the Scottish Government. Notwithstanding the slower timetable applying to NLS, the convergence process may require significant resource to complete and it is important that NLS properly plan to manage the transition over the next few years.