

# National Library of Scotland

Report on the 2009/10 Audit to the National Library of Scotland  
and the Auditor General for Scotland

December 2010

The logo for Audit Scotland, featuring a stylized blue 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

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the Auditor General for Scotland

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# Key messages

In 2009/10 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 the use of resources and aspects of performance management and governance. This report sets out our key findings.

## Financial statements

We have qualified our regularity opinion on the financial statements of NLS. In June 2010, NLS management detected a financial irregularity involving a suspected financial misappropriation relating to procurement and invoicing. The estimated value of the financial irregularity in this financial year is in excess of our materiality for the audit and I have therefore concluded that the audit evidence I have obtained is sufficient and appropriate to provide a basis for a qualified audit opinion.

With the exception of the matter referred to above, we have 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.

We have provided an unqualified opinion on the true and fair view on the financial statements.

## Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

NLS is required to operate within the budget limits set by Scottish Government for capital spending and operating expenditure. In 2009/10 NLS overspent the non cash items by £0.341 million. Scottish Government approved this overspend. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income of £16.698 million (2008/09 £12.317 million). The increase of £4.381 million was due mainly to an increase in the permanent diminution in value of fixed assets and a decrease in other income. NLS' net asset position decreased to £78.045 million (2008/09 £91.042 million) mainly due to the downward revaluation of one property together with an impairment review of existing assets.

Scottish Ministers have agreed a financial allocation of £19.797 million for 2010/11. This comprises operating expenditure of £13.889 million, capital expenditure of £1.500 million and non-cash expenditure of £4.408 million.



In response to the challenging financial outlook for 2010/11 and 2011/12 NLS is preparing for greater constraints on public funding in the next and future years and it is striving to ensure that expenditure is prioritised in line with agreed strategic objectives and is working towards developing a new corporate strategy within a tighter funding context. Effective budget monitoring arrangements are therefore crucial if NLS is to achieve its financial targets and deliver its objectives within tight financial settlements.

In the current three year budget settlement NLS is required to make two per cent efficiency savings each year over the three years to 2010/11 and a further one per cent in 2010/11. The actual savings achieved to 31 March 2010 were £0.546 million of cash releasing efficiencies.

## **Governance and accountability**

Corporate Governance is concerned with the structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements, except for the suspected financial misappropriation detailed above, 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. Our overall conclusion, except for the matter referred to above, is that arrangements within NLS are sound and have operated through 2009/10.

## **Performance**

The NLS' high level mission and objectives are published on their website. NLS' mission is to enrich lives and communities, encouraging and promoting lifelong learning, research and scholarship, and universal access to information, by comprehensively collecting and making available the recorded knowledge of Scotland, and promoting access to the ideas and cultures of the world. NLS' corporate strategy is based around four key themes: developing the national collections, developing the organisation, building relationships, widening access to knowledge.

NLS have recognised that they need to prepare for greater constraints on public funding in the next few years and that 2010/11 will be a year of transition as they work towards developing a new corporate strategy within a tighter funding regime. The 2010/11 plan focuses on a smaller number of key priorities to enable progress to be easily monitored. Departmental planning has been rationalised and there will be five departmental plans which aim to ensure the priorities are delivered in a focussed and co-ordinated way.

NLS set key performance targets for 2009/10 under the four key themes outlined in the corporate strategy. Achievements include exceeding the target for creating digital images by 141,000 and exceeding the target for visitor numbers to events by 4,000.

## **Looking forward**

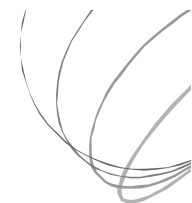
The final part of our report notes some key risk areas and issues for NLS going forward. We highlighted a number of national issues which affect all public sector bodies including NLS: efficiencies and future



funding, financial management and affordability. We will continue to monitor NLS' financial planning arrangements and financial position.

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

**Audit Scotland**  
**December 2010**



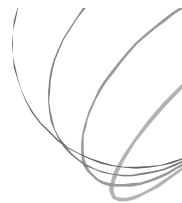
# Introduction

1. This report summarises the findings from our 2009/10 audit of NLS. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 16 March 2010. 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 one report this year, and we briefly touch on the key issues we raised in this report. The report sets out our detailed findings and recommendations and NLS' agreed response.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body



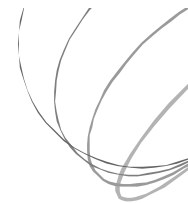
4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer



guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.

5. Throughout this report we comment on aspects of NLS' arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of NLS, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the Board members and staff 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.





# Financial Statements

8. In this section we summarise key outcomes from our audit of NLS' financial statements for 2009/10 and the 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

9. 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 within the financial statements
  - the regularity of the expenditure and receipts.
10. 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
  - assessing whether disclosures in the statement are consistent with our knowledge of NLS.

## Overall conclusion

11. With the exception of the matter referred to in paragraph 17 below, we have concluded 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.
12. We have provided an unqualified opinion on the true and fair view on the financial statements.
13. As agreed the unaudited accounts were provided to us on 07 June 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 01 September 2010 as timetabled.



## Issues arising from the audit

14. As required by auditing standards we reported to the audit committee on 01 September 2010 the main issues arising from our audit of the financial statements. The key issue other than the regularity qualification noted in paragraph 17 was the following:
15. **Monitoring resource budget outturn-** NLS reported an overspend against budget for the non-cash elements of grant-in-aid approved by the Scottish Government as noted below at paragraph 20. This also occurred in 2008/09. The Scottish Government has provided written assurance to NLS that there will be no recovery of the £341k excess non-cash items against the 2010/11 grant-in-aid. However, the Scottish Government has indicated that the same support may not be available in future years. NLS has agreed to ensure that adequate in-year monitoring arrangements are in place for future years.

## Regularity

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.
17. We have qualified our regularity opinion on the financial statements of NLS for 2009/10. As disclosed in the Statement on Internal Control in June 2010 NLS management detected a financial irregularity involving a suspected financial misappropriation relating to procurement and invoicing. Internal audit have carried out an investigation and the matter has now been referred to the police. Internal investigations are continuing and a member of staff has resigned. The estimated value of the financial irregularity in this financial year is in excess of our materiality for the audit. I have therefore concluded that the audit evidence I have obtained is sufficient and appropriate to provide a basis for a qualified audit opinion that the expenditure was not incurred in accordance with applicable enactments and guidance issued by Scottish Ministers.

## International financial reporting standards (IFRS)

18. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008. 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. Notwithstanding the slower timetable applying to NLS, the convergence process may require significant resource to complete and it is important that NLS properly plans to manage the transition over the next few years.



# Use of Resources

19. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of NLS’:

- financial position
- financial management.

## Financial Position

### Outturn 2009/10

20. NLS is required to work within the budget limits set the Scottish Government. The total financial allocation set by the Scottish Government for NLS for 2009/10 was £21.453 million. This figure comprises an operating budget of £15.553 million, capital budget of £0.390 million and non-cash items of £5.510 million. In 2009/10 NLS overspent the resource budget limits set by the Scottish Government – see exhibit 2 below. The overspend of £0.341 million resulted mainly from the impairment of the John Murray Visitor Centre Project and write off of tangible fixed assets. Scottish Government approved the overspend.

**Exhibit 2 – Performance against resource budget 2009/10 (£ million)**

Limits	Grant in Aid offer £m	Actual Outturn £m	Difference £m
<b>Cash items</b>			
Operating costs	14.253	14.253	nil
Purchase grant	1.300	1.300	nil
Capital	0.390	0.390	nil
<b>Non Cash items</b>			
Cost of Capital	2.547	1.737	0.810
Depreciation	2.963	2.315	0.648
Impairment and write-off of tangible fixed assets	0.000	1.799	(1.799)
<b>Total</b>	<b>21.453</b>	<b>21.794</b>	<b>(0.341)</b>

19. The FrEM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income of £16.698 million (2008/09 £12.317 million). The increase of £4.381 million was due mainly to an increase in the permanent diminution in value of fixed assets and a decrease in other income.

20. NLS’ net asset position decreased to £78.045 million (2008/09 £91.042 million) mainly due to the downward revaluation of one property together with an impairment review of existing assets.



## Scotland's public finances

21. The Auditor General's report on Scotland's public finances, published in November 2009, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

### **Extract from Auditor General's report *Scotland's public finances***

*The public sector is coming under the greatest financial pressure since devolution.*

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

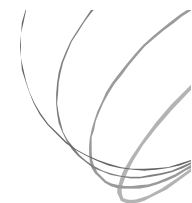
*The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

*In the current economic climate difficult decisions will have to be made about priority spending programmes.*

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

22. In response to the challenging financial outlook for 2010/11 and 2011/12 NLS is preparing for greater constraints on public funding in the next and future years and it is striving to ensure that expenditure



is prioritised in line with agreed strategic objectives and is working towards developing a new corporate strategy within a tighter funding context.

## Financial sustainability and the 2010/11 budget

- 23. Scottish Ministers have agreed a financial allocation of £19.797 million for 2010/11. This comprises operating expenditure of £13.889 million, capital expenditure of £1.500 million and non-cash expenditure of £4.408 million.
- 24. This is to be funded as follows:

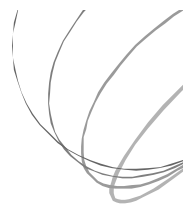
**Exhibit 3 – 2010/11 Proposed Budget (£ million)**

Limits	Budget
<b>Cash limits</b>	
Operating costs	13.889
Purchase grant	1.300
Capital project	0.200
<b>Non Cash items</b>	
Cost of capital	2.508
Depreciation	1.900
<b>Total</b>	<b>19.797</b>

- 25. This represents a decrease in overall funding for 2010/11. However within operating costs, the funding for running costs is held at almost the same level as last year as there was one-off funding in 2009/10 for specific items of expenditure. In the current three year budget settlement NLS is required to make two per cent efficiency savings each year over the three years to 2010/11 and a further one per cent in 2010/11. Grant-in-aid will not be uplifted for pay or general inflation as this is expected to be met from NLS' efficiency savings each year. Delivering efficiencies year on year while absorbing cost pressures such as the recently announced increase in VAT from January 2011 represents a significant challenge for NLS. Effective budget monitoring arrangements are therefore crucial if NLS is to achieve its financial targets and deliver its objectives within tight financial settlements.
- 26. Pressure on budgets will continue in 2011/12 and beyond. There are constraints on NLS' ability to reduce costs or achieve savings as staff costs represent the majority of the expenditure base. NLS are considering introducing a voluntary retirement scheme to achieve a reduction in staff costs for future years.

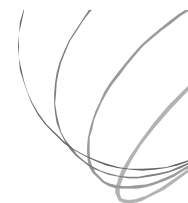
## Future studies

- 27. Audit Scotland is about to start fieldwork for the performance audit 'Management of the Scottish Government's capital investment programme' which is due to be published in autumn 2010. Overall, the project aims to provide independent assurance about how well the Scottish Government is



managing its capital investment programme and associated risks. It will also assess and report on the outlook for investment spending and what improvements have been made in major project management since our previous report *Review of major capital projects in Scotland* (June 2008). NLS should consider the findings of this report when undertaking capital projects.

28. **Improving energy efficiency:** a follow-up report will re-evaluate the performance of the public sector in improving its energy efficiency. It will assess progress made against the recommendations in the *Improving energy efficiency report 2008*. NLS completed Audit Scotland's survey for that report. The follow-up report will look at changes in public bodies' energy consumption and spending on energy since 2004/05. It will also look at how prepared participating public bodies are for the CRC Energy Efficiency Scheme. It is due to be published in December 2010. NLS has participated in the TUC Green Workplaces project, started working with the Carbon Trust and produced a Carbon Management Plan, joined the 10:10 campaign to reduce its CO2 emissions from its operations by 10% by the end of calendar year 2010/11 and has a performance target on sustainability.



# Governance and Accountability

29. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of NLS' arrangements.
30. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

## Overview of arrangements

31. This year we reviewed:
  - key systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
  - partnership working.
32. Our overall conclusion is except for the issue detailed at paragraph 17 arrangements within NLS are sound and have operated through 2009/10.

## Systems of internal control

33. 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 2009/10 Baker Tilly, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, NLS has an adequate framework of control over the systems examined.
34. As part of our audit we reviewed the high level controls in a number of NLS systems that impact on the financial statements. Except for the issue detailed at paragraph 17 our overall conclusion was that key controls were operating effectively and that NLS has adequate systems of internal control in place. We did identify a number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2010/11 to confirm that improvements have been made.





## Statement on Internal Control

35. 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 NLS' approach to this. The Statement on Internal Control highlighted one area where internal controls are under review. As a result of the financial misappropriation detected during work to introduce a new finance system (see paragraph 17) NLS has immediately strengthened its existing procedures by requiring its managers to examine procurement methods used more closely before authorising expenditure. The replacement finance system will be available from April 2011 and will further improve control. It will improve procurement through a new electronic purchase order process which will require approval before any expenditure is committed. It will also provide improved reporting, therefore scrutiny, of non-contracted expenditure and suppliers.
36. We will monitor the actions taken to strengthen the control environment in 2010/11.

## Internal Audit

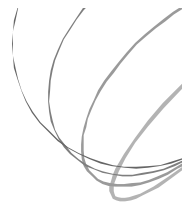
37. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on NLS' internal audit function. We concluded that Baker Tilly operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in a number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.
38. Baker Tilly's contract to provide internal audit services to NLS and National Galleries of Scotland has been extended. It is hoped that this will allow common areas of review to be identified and reviewed jointly to contribute to the ongoing shared services programme.

## Prevention and detection of fraud and irregularities

39. NLS has in place fraud prevention guidelines including a fraud prevention policy and response plan. These were revised in September 2009 and approved by the Senior Management Team in October 2009. NLS' fraud response plan was put in practice in June 2010 in relation to the financial misappropriation highlighted at paragraph 17 of this report.

## Partnership working

40. In January 2008 the First Minister issued a statement on More Effective Government. It outlined his vision for simplifying the public sector and delivering a reduction in the number of public sector organisations. NLS has a joint working group at Chief Executive level with National Museums Scotland and National Galleries of Scotland. A joint programme manager has been investigating



opportunities for shared services such as financial information systems. We will continue to monitor progress during 2010/11.

## National Studies

41. In late September 2010, Audit Scotland published a national study on The Role of Boards which will be relevant to the governance of NLS. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. There are recent examples of the failure of public sector organisations to establish an adequate Board. We assessed how Board members are selected and whether the membership of Boards is appropriate. We also reviewed how the performance of Boards is measured and the arrangements for induction and training for non-executive members. The review included the NLS Board as a case study.

42. The **key messages** arising from the study were:

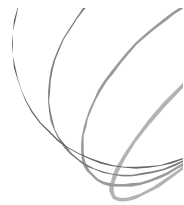
- The Scottish Government has made progress with its public sector reform agenda but the public sector landscape remains complex with a number of different types of body. The make-up of boards and their role has evolved over time rather than as a result of any objective evaluation of the best model for public accountability. Chief executives and their boards have parallel lines of accountability and this can cause confusion over who leads the organisation unless the separate roles are well defined and understood.
- The overall number of people applying to be non-executives is falling. The appointments process for non-executives is improving but there are still weaknesses. The length of time it can take to make an appointment remains too long and there has been mixed progress in widening the diversity of applicants to become non-executives.
- In addition to giving leadership and strategic direction, a very important role for boards is the scrutiny of risk, financial management and performance. This will become increasingly important as budgets are reduced. Boards are not consistently good at doing this. Responsibility for risk management is largely delegated to audit committees, rather than being led by the board.

43. The summary **key recommendations** arising were:

The Scottish Government should:

- as part of its public sector simplification agenda, clarify the lines of accountability between public bodies, the Scottish Government and the Scottish Parliament
- investigate why the number of applications for public appointments is falling and take action to reverse this trend.

The Scottish Government and public bodies should review the skills and expertise that they need among non-executives for the future and seek to attract applicants to fill any gaps identified.



Public bodies should:

- ensure that their boards focus their scrutiny on organisational performance, financial management and risk management
- review the use of committees and ensure that major decisions which should be made by the board are not delegated.

44. We will monitor NLS' action in response to these recommendations as part of our 2010/11 audit.

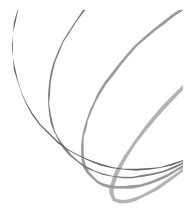


# Performance

45. 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. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
  - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
46. In this section we comment on:
- NLS corporate plan
  - performance against targets
  - NLS efficiency programme

## Vision and strategic direction

47. NLS' high level mission and objectives are published on their website. NLS' mission is to enrich lives and communities, encouraging and promoting lifelong learning, research and scholarship, and universal access to information, by comprehensively collecting and making available the recorded knowledge of Scotland, and promoting access to the ideas and cultures of the world.
48. NLS' corporate strategy (Expanding our Horizons) which was agreed in March 2008 is based around four key themes:
- Develop the national collections
  - Develop the organisation
  - Build relationships
  - Widen access to knowledge
49. Under each of these themes are corporate objectives and priorities and these are aligned with the wider policies and strategies established by Scottish Government.
50. The NLS corporate plan for 2010-2011 covers the last year of the planning round under the corporate strategy. The NLS have recognised that they need to prepare for greater constraints on public funding in the next few years and that 2010/11 will be a year of transition as they work towards developing a new corporate strategy within a tighter funding regime. The 2010/11 plan focuses on a smaller number of key priorities to enable progress to be easily monitored. Departmental planning



has been rationalised and there will be five departmental plans which aim to ensure the priorities are delivered in a focussed and co-ordinated way.

## Performance overview

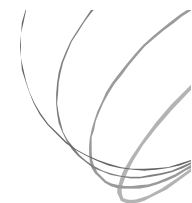
51. NLS sets key performance targets under the four key themes outlined above. Examples of reported achievements against targets include:
- The number of digital objects created through the digitisation programme at 335,000 were 141,000 more than the target of 194,000
  - Visitor numbers to events exceeded the target by 4,000.
52. NLS failed to achieve their sickness absence target because of a number long term absences and action has been taken to manage this in 2010/11. Senior management review these targets on a regular basis and performance against these targets is reported to the audit committee on a quarterly basis.

## Risk management

53. NLS operates a risk management policy. Business risks are monitored at operational and senior management/board level. During the year the Corporate Risk Register was reviewed and updated and a system of recording Departmental and Divisional risks as part of the corporate planning process was put in place. Key risks identified by NLS at senior management/Board level include:
- inadequate resources to meet strategic objectives
  - loss or reduction in provision of services through external events and/or internal failings
  - a major failure of technical systems.
54. The NLS senior management team have put in place a series of control measures to manage these key business risks effectively. These include submitting capital funding bids and a recruitment freeze, updating the business continuity plan and reviewing the network maintenance. The challenge for the Board will be to embed risk awareness throughout the organisation to support the effective management of risks. We will continue to monitor NLS' risk management arrangements and the progress made to address the key risks.

## Improving public sector efficiency

55. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.



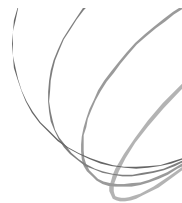
56. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
57. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
58. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).

**Extract from Audit Scotland report *Improving public sector efficiency***

*In order to improve the delivery of efficiency savings public bodies should:*

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

59. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
60. In the current three year budget settlement NLS is required to make two per cent efficiency savings each year over the three years to 2010/11 and a further one per cent in 2010/11. The actual savings achieved to 31 March 2010 were £0.546 million of cash releasing efficiencies. These include a recurring saving of £0.200 million from a reduction in the VAT liability. Efficiency savings were also achieved from a reduction in staff posts across all pay bands. NLS plan to achieve savings through a



combination of continued management restructuring, print reductions and energy savings resulting from the sustainability plan. We will continue to monitor the financial position and the actions taken by NLS.



# Looking Forward

61. NLS faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - the announcement of future budget cuts by the new UK government indicates that there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for NLS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Financial management and affordability** - Scottish Government spending is set to decline significantly in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to NLS achieving its financial targets within tighter funding settlements. We will consider NLS financial management arrangements as part of our 2010/11 audit.
- **Heritage Assets** - the Accounting Standards Board Financial Reporting Standard 30 on heritage assets has significant new disclosure requirements for reporting the content and value of heritage assets. The new standard is mandatory for 2010/11 and NLS will need to finish preparations for disclosure in the accounts.
- **Implementation of IFRS** - the timetable for IFRS implementation requires that central government accounts in Scotland become IFRS compliant with effect from the 2009/10 financial year. However implementation has been deferred for charities and, as yet, the date for shadow accounts has not been agreed. The processes to implement IFRS will require significant resource to complete and these issues should continue to be addressed in 2010/11.