

National Library of Scotland

Annual report on the 2010/11 audit



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

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

We have given an unqualified opinion on the financial statements of National Library of Scotland (NLS) for 2010/11. NLS' overall financial position at 31 March 2011 is net assets of £75.446 million. This is a small decrease on last year's position due mainly to depreciation and downward valuation of land and buildings partly offset by a decrease in creditors due to payment of the final instalment of the John Murray Archive acquisition.

NLS is required to work within the budget set by the Scottish Government. NLS underspent its budget of £19.437 million in 2010/11 by £0.386 million.

Within its published accounts for 2010/11 NLS recorded an excess of expenditure over income transferred to reserves of £14.845 million. The 2010/11 voluntary severance exercise resulted in 20 staff leaving the organisation at a cost of £954,000.

NLS is working with the National Galleries of Scotland on developing shared services for corporate support activities. A shared finance system has been delivered and major progress made on integrating the technical infrastructures, which will enable further shared service developments. A shared services programme board and a governance group are in place and the HR teams are working together under the direction of an Interim Head of Organisational Development.

NLS set itself 14 key performance targets for 2010/11 and reported achieving or partly achieving 11 of them. NLS achieved recurring efficiency savings for 2010/11 of £338,000, against a target of £270,000.

Procedures and controls over purchasing have been strengthened since the discovery last year of a financial misappropriation. A follow up section 22 report is currently being considered by the Auditor General.

Outlook

The identification of on-going savings including the reduction in staff costs through the voluntary severance scheme means that NLS has set a balanced budget for 2011/12. NLS' new corporate strategy 2011-14 - Connecting Knowledge - covers a period which is expected to see considerable reductions in public spending. It sets out the priorities which will determine how NLS uses its resources to achieve its aims and objectives.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of National Library of Scotland (NLS). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Reports have been issued in the course of the year (Appendix A) and we do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of NLS.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that NLS understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to NLS and the Auditor General and should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by NLS' Audit Committee.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of NLS for 2010/11 give a true and fair view of the state of the body's affairs and of its incoming resources and application of resources, including its income and expenditure for the year.
11. NLS is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

Regularity

12. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

13. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and Annual Report of the Board of Trustees are consistent with the financial statements.
14. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with Scottish Government guidance.

Accounting issues

Accounts submission

15. The financial statements were submitted for audit on 31 May, in accordance with a pre-agreed timetable. The audit fieldwork was completed on 24 June and matters arising from this work were reported to the Director of Corporate Services on 4 July. A report covering any significant matters on the financial statements was issued on 3 August for the Audit Committee on 24 August. The revised financial statements were signed by the accountable officer on 5 September following approval by the board on 5 September.

Presentational and monetary adjustments to the unaudited accounts

16. A number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. The audited financial statements have been adjusted to reflect these issues.

Prior year adjustments

17. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM and some including NLS by the change in disclosure of heritage assets. NLS previously included the Graham Brown Trust Fund within its annual report and accounts. It was confirmed this year that this Fund is accounted for separately by the Trustees of the Fund so the Fund has been eliminated from the NLS accounts. These changes are identified in Note 1 as changes in accounting policy and appropriate amendments have been made to the prior year statements.

Group accounts

18. NLS is the parent company of the Agency for Legal Deposit Libraries (ALDL) and ALDL is an Associate of NLS. NLS has not prepared group accounts. It has been agreed that group accounts are not required on grounds of materiality this year however NLS has agreed to keep the level of ALDL's expenditure under review for future years and consider the need for group accounts if the amounts become material.

Refer Action Plan no. 1

Whole of government accounts

19. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. NLS was required to submit a consolidation pack to Scottish Government by 29 July. The audit of the pack is currently being completed.

Outlook

20. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. Most grants and donated assets

should be recognised as income, but grants from a sponsoring department to an NDPB should be credited to general reserves. As a consequence, the government grant reserve and donated asset reserve will no longer exist. This is likely to result in a presentational change to the financial statements of NLS next year.

International financial reporting standards (IFRS)

21. UK government departments and other public sector bodies, excluding registered charities, prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10 as part of an early adoption policy decided by UK Ministers. Over the next few years, registered charities in the UK, such as NLS, will be required to prepare their accounts in accordance with IFRS under a slower timetable for convergence as determined by the UK Accounting Standards Board. However, a detailed timetable for the transition to IFRS has still to be decided. In the meantime, it is important that NLS take appropriate preparatory steps in anticipation of the transition, particularly in regard to training of staff in the finance department on revised financial reporting disclosures and formats of accounts.

Audit appointment for 2011/12

22. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for NLS will be PricewaterhouseCoopers. As this is the last year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with NLS and thank staff and members of the board and committees for their assistance during the last five years. We will be meeting the incoming external auditors, PricewaterhouseCoopers, as part of a managed changeover process.

Financial position

23. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
24. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
25. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

26. The Scottish Government provides NLS with a budget and cash allocation for the year, which originates from the spending review settlement and is subsequently approved in the budget bill. During the year revisions are approved in the autumn and spring budget revisions. NLS is expected to manage its budget in accordance with its financial memorandum document and Scottish Public Finance Manual.
27. The total grant in aid offered by the Scottish Government for NLS for 2010/11 was £19.437 million. This figure comprises an operating budget of £14.882 million, purchase grant of £1.3 million, capital budget of £0.940 million and non-cash items of £2.315 million. NLS is required, taking one year with another to meet the Scottish Government resource limits set for it. In 2010/11 NLS drew down its full cash grant in aid entitlement and underspent the budget limits set by the Scottish Government by £0.386 million due to an underspend in depreciation (non-cash) – see exhibit 1 below.

Exhibit 1 – Performance against budget 2010/11 (£ million)

Limits	Grant in Aid offer	Actual Outturn	Difference
Cash items			
Operating costs	14.882	14.882	Nil
Purchase grant	1.300	1.300	Nil
Capital	0.940	0.940	Nil
Non-cash items			
Depreciation	2.315	1.929	0.386
Total	19.437	19.051	0.386

Source: NLS 2010/11 annual report and accounts

28. The FReM requirement to account for grant in aid as a credit to reserves has resulted in an excess of expenditure over income transferred to reserves of £14.845 million (2009/10 £16.698 million). The decrease of £1.853 million was due mainly to a decrease in expenditure on permanent diminution in the value of fixed assets and on other operating charges, partly offset by an increase in expenditure on a voluntary early exit scheme.

Financial position at 31 March 2011

29. NLS' net asset position decreased to £75.446 million (2009/10 £76.852 million restated) mainly due to the depreciation and downward valuation of land and buildings partly offset by a decrease in creditors due to payment of the final instalment of the John Murray Archive acquisition.

Budgetary control

30. NLS has sound budget setting and monitoring arrangements. Initiatives in 2010/11 to control expenditure included a voluntary early exit scheme, improvements in procurement procedures and a new method for storing microfilm which NLS calculated as reducing the cost from £3 to 34p per microfilm. Technical infrastructure improvements included the creation of a new server room and a server virtualisation programme, which resulted in savings from a reduction in energy usage and provided a significant contribution to the achievement of carbon emission reductions.

Capital investment and performance 2010/11

31. NLS invested £0.403 million on new computer equipment. A new finance system, based on a shared service with the National Galleries of Scotland was implemented and went live on 1 April 2011.

Financial planning to support priority setting and cost reductions

32. A number of initiatives have been introduced to enable NLS meet the budget reductions applied for the current and future years. Staff were consulted through a 'Planning for Savings' group in order to help identify opportunities to reduce NLS' costs. Several staff recommendations have been acted on already and NLS plans to take others forward during 2011/12.

Procurement

33. The Public Procurement Reform Programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced a new annual evidence-based assessment, the procurement capability assessment (PCA), to monitor how far public sector bodies adopt good purchasing practice and as a basis for sharing best practice. So far two rounds of PCA assessment have been completed. NLS report that improvements in procurement procedures resulted in a higher rating under the PCA.

Workforce reduction

34. A voluntary early exit scheme was introduced in 2010/11. The scheme will cost £954,000 over a number of years and has seen the departure of 20 staff. Recruitment restrictions resulted in a further reduction of the workforce through natural attrition.

Partnership working

35. NLS is working with the National Galleries of Scotland on developing shared services for corporate support activities. As well as the shared finance system, major progress has been made on integrating the technical infrastructures which will enable further shared service developments. A shared services programme board and a governance group are in place and the HR teams are working together under the direction of an Interim Head of Organisational Development.

Outlook

2011/12 budget

36. Scottish Ministers have agreed a financial allocation of £17.455 million for 2011/12. This comprises operating expenditure of £13.275 million, capital expenditure of £1.8 million and non-cash expenditure of £2.380 million. The operating expenditure allocation is a significant reduction of 10% from the previous year. As noted above NLS have identified savings which will allow NLS to focus on key priorities in its use of resources and set a balanced budget.

End Year Flexibility

37. As part of efforts to reduce national borrowing levels, the UK Government has announced the replacement of End Year Flexibility with a more restrictive Budget Exchange arrangement from 2011/12. The Scottish Government is in dialogue with HM Treasury about the ultimate

implications for the Scottish Budget, including the extent to which it can carry forward any unspent funding from 2010/11 to future years.

Governance and accountability

38. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
39. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
40. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
41. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

42. The National Librarian is supported by a Board of Trustees which is responsible for ensuring that NLS fulfils the aims and objectives set by Scottish Ministers. The role of the Board includes establishing the overall strategic direction, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with.
43. NLS also requires the directors to complete the Scottish Government's internal control checklists to confirm that the required internal controls were applied within their areas of responsibility. In 2010/11 there were no issues to report and the chief executive was able to submit a clear Certificate of Assurance to the Scottish Government. The process for 2011/12 is to be improved to include more formal evidence based documentation.
44. NLS has an Audit Committee which monitors and reviews risk, control and corporate governance and reports to the Board.

Internal control

45. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require them to consider the financial

systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

46. A financial irregularity discovered last year led to a report under section 22(3) of the Public Finance and Accountability (Scotland) Act 2000 - The 2009/10 audit of the National Library of Scotland. The report referred to the qualified opinion on regularity of expenditure because of a financial misappropriation. The report described the strengthening of NLS procedures and controls by requiring managers to examine procurement methods used more closely before authorising expenditure and by the replacement finance system from April 2011. The Auditor General is currently considering carrying out a follow up section 22 report.
47. Our audit approach includes a review of the high level controls operating within NLS' key financial systems. Our overall conclusion from the 2010/11 review was that key controls were operating effectively and that NLS has adequate systems of internal control in place.
48. In the interests of an efficient audit approach we rely on the work of Baker Tilly, the internal auditor. Baker Tilly carried out a comprehensive review of the control environment rather than the usual controls compliance on which overall assurance is based and we have relied on this.
49. The Statement of Internal Control reflects the revised controls and procedures implemented as a result of the financial irregularity and the follow up work undertaken by Baker Tilly to ensure the revised procedures and controls are working as expected.

Prevention and detection of fraud and irregularities

50. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
51. The strengthening of purchasing procedures has improved NLS' arrangements for preventing and detecting instances of fraud and corruption. NLS has detailed policies and codes of conduct for staff and Board members covering gifts and hospitality.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

52. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in NLS are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

53. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
54. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
55. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.
56. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

Management arrangements

Best Value

57. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
58. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.
59. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
 - vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)

- sustainability (cross-cutting).
60. In responding to the recommendations of the Baker Tilly comprehensive review of the control environment and budget reductions for future years NLS is considering best value guidance to ensure sound principles are followed.

Overview of performance in 2010/11

Key performance indicators

61. The main purposes of NLS are to collect information, knowledge and creative outputs; preserve these collections for future use; and make them accessible to people in order to stimulate research and creativity. To help measure its performance in 2010/11 NLS set itself 14 key performance targets and reported achieving or partly achieving 11 of them. Some targets and reported achievements were:
- digital objects created through the digitisation programme at 410,138 were 92,138 more than the target of 318,000
 - an 18.4% reduction in CO₂ emissions
 - the highest yearly figures for reading room visits since KPI reporting began in 2004/05, the total yearly figure for 2010/11 showing a 50% increase on that for 2004/05.
62. 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. NLS reported annually recurring efficiency savings achieved for 2010/11 of £338,000, against a target of £270,000 and a time release saving of £142,000 was achieved through improved attendance management.
63. NLS reported failing by 4% to achieve their website usage target though the final quarter showed an improvement as Post Office directories, available from late December, had a significant impact on visits, and failing by 11% to meet its target of 75% customer satisfaction.

National performance reports

64. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.
65. Reports in the last year of direct interest are set out in Exhibit 2.

Exhibit 2: A selection of National performance reports 2010/11

- | | |
|---|---|
| <ul style="list-style-type: none"> • Improving energy efficiency: a follow-up report • Scotland's public finances: responding to the challenges | <ul style="list-style-type: none"> • The role of boards • Role of boards: a summary for non-executive board members |
|---|---|

Source: www.audit-scotland.gov.uk

The role of boards

66. The report noted that there remains a lack of clarity about the roles of the boards of public bodies, particularly the extent to which they provide leadership and strategic direction and examines this issue, along with other questions about the work of boards.
67. The Governance Working Party (GWP), a sub-committee of the Board of Trustees, discussed issues raised by the report. A paper was submitted to the full Board of Trustees to provide the Board with the opportunity to consider key findings of the report and the recommendations made by the GWP. These related amongst other things to the need for regular review of Board members' performance, an annual review of Board performance and inclusion of an external assessor, risk management and the adequacy of performance information available to the Board. Actions have been planned to address the recommendations.

Improving energy efficiency: a follow-up report

68. Scotland has ambitious targets to reduce greenhouse gas emissions and public bodies are adopting a more strategic approach to improving energy efficiency. However, the public sector as a whole is not yet reducing emissions at sufficient pace to set a good example or influence others, and future budget reductions may affect the level of investment available to achieve further improvement.
69. In April 2010 NLS put in place a Carbon Management Plan, developed under the Carbon Trust's Carbon Management Programme which commits NLS to reduce CO₂ emissions from its operation by 30% by 2014/15 from 2008/09 levels. Reported reduction measures have included staff engagement programmes, tightening of building management system control, installation of voltage optimisation technology in two properties, a lighting replacement programme and creation of a new main server room which included energy saving measures.

Outlook

70. NLS' new corporate strategy 2011-14 - Connecting Knowledge - covers a period which is expected to see considerable reductions in public spending. It sets out the priorities which will determine how NLS uses its resources to achieve its aims and objectives. The strategy identifies the challenges and opportunities presented to NLS including:
- collecting electronic publications through legal deposit

- ensuring that digital collections are preserved for the long term
- increasing the resources that customers can use online where and when it suits them - in the home, school or business workplace
- making collections visible, findable and joined-up
- striking the best balance between investing in digital and in physical services.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – NLS	28 February 2011	14 March 2011
Key financial controls assurance report	31 May 2011	27 June 2011
Report on financial statements to those charged with governance	3 August 2011	24 August 2011
Audit opinion on the 2010/11 financial statements	3 August 2011	24 August 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	18	<p>NLS is the parent company of the Agency for Legal Deposit Libraries (ALDL) and ALDL is an Associate of NLS. NLS has not prepared group accounts. It has been agreed that group accounts are not required on grounds of materiality this year.</p> <p>There is a risk that the transactions could become material in the future.</p>	NLS will keep the level of ALDL's expenditure under review for future years and consider the need for group accounts if the amounts become material.	Susan McKenzie	30 September 2012