
National Library of Scotland

Annual Report to the Board and the Auditor General for Scotland

Year ended 31 March 2013

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The matters raised in this and other reports that flow from the audit are only those which have come to our attention arising from or relevant to our audit that we believe need to be brought to your attention. They are not a comprehensive record of all matters arising and in particular we cannot be held responsible for reporting all risks in your business. This report has been prepared for and only for National Library of Scotland in accordance with the terms of our engagement letter and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

1 Introduction

We have pleasure in presenting this report relating to our audit of the financial statements of National Library of Scotland for the year ended 31 March 2013.

We have discussed this report with the Interim Head of Finance as part of our audit process. The purpose of this report is to update the Board on the progress of the audit and of any significant matters that have arisen during the course of our work.

1.1 Audit status

Our audit work on the draft financial statements for the year ended 31 March 2013 was carried out from the week commencing 3 June 2013. The audit is now complete.

1.2 Audit overview and conclusions

Subject to finalisation of the financial statements and their approval by the Board, we expect to issue an unqualified audit opinion for National Library of Scotland.

1.3 Findings arising from the audit

Section 2 of this report summarises the findings arising from our audit.

1.4 Misstatements and significant deficiencies in internal control

There have been no material misstatements other than of a disclosure nature. These have all been accepted by management and have been updated in the financial statements. A summary of the areas identified for improvement in relation to control deficiencies identified is included in Appendix 1.

1.5 Other areas of feedback

Section 4 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing (ISA) 260 "Communication with those charged with governance".

During 2012/13 the Scottish Government authorised National Library of Scotland to release £1.500 million to the National Library of Scotland Foundation to release reserves that have previously been built up by National Library of Scotland. National Library of Scotland Foundation has been set up as an arms length body with the aim of furthering the objectives of the National Library of Scotland. National Library of Scotland make applications for funding from National Library of Scotland Foundation. However, there is no requirement for National Library of Scotland Foundation to approve applications.

During the year, two senior members of staff were suspended from their posts following the emergence of new allegations and information in relation to the Dinham fraud. A subsequent investigation by an independent third party commissioned by management, disciplinary hearings were conducted that resulted in no disciplinary action.

These suspensions, together with the absence through illness of the National Librarian & Chief Executive, and the resignation and departure of the Head of Finance, has created a risk through the year regarding sufficient management coverage. There is a need for the Organisation to make permanent appointments to all key positions.

In addition a number of improvements were made to the governance and control environment following the

Dinham fraud, including the appointment of a permanent Compliance, Audit & Review Manager. It is recommended that this culture of improvement continues through increased management scrutiny and focus.

We look forward to the opportunity to discuss the points raised in the report with you at the Audit Committee meeting on 21 October 2013.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of National Library of Scotland throughout our work. This period has been particularly challenging for National Library of Scotland with key staff members being unavailable during the process of preparing the financial statements and their subsequent audit. National Library of Scotland identified this potential weakness and addressed this through the early appointment of an Interim Head of Finance.

2 Audit Findings

Our audit followed the approach set out in our Audit Strategy document presented to the Audit Committee in March 2013. We confirm that there has been no cause for us to vary the planned scope of our work.

We have included a summary of our findings below.

Risk identified/area of audit focus	Audit response
Management override of controls Significant risk	In accordance with our audit plan, we reviewed significant journals and examined management's accounting estimates for indicators of bias. We can confirm that our work in this area did not identify any errors that required adjustment to the financial statements.
Revenue recognition Significant risk	We examined and tested the process through which management has identified and quantified any income that needs to be accrued (or deferred) at year-end. We can confirm that our work in this area did not identify any errors that required adjustment to the financial statements.

Our work in relation to our significant risks has resulted in no errors being identified that require an adjustment to be made to the financial statements.

3 Financial Performance

3.1 Financial performance – 2012/13

National Library of Scotland is facing an increasingly challenging financial environment. Total in-year income decreased by £1.288 million to £15.884 million (2011/12 £17.172 million). The Scottish Government has confirmed that Grant in Aid will continue at similar levels in future years.

3.2 Financial outlook – 2013/14 and beyond

The National Library of Scotland Board approved a small deficit and the Corporate Plan for 2013-2014 in March 2013. The 2013/14 budget estimates includes a small increase in Grant in aid from £15.134 million to £15.159 million in 2013/14.

National Library of Scotland faces a number of cost pressures arising from the buildings and plant. In particular, the next priority for National Library of Scotland is to undertake roof repairs at the National Library of Scotland Causeway building. However, with a reduced capital budget National Library of Scotland will face a challenge just to continue to manage their capital budget effectively to maintain the quality of the existing estate.

3.3 Financial Management and Leadership

The achievement of financial efficiencies in previous years, as well as increasing self-generated income, should be commended.

Management should continue to demonstrate strong leadership and the promotion of an efficiency and savings culture. This leadership will include robust monitoring and reporting on progress against any savings plans, and taking early action to avoid slippage within any savings schemes identified.

4 Communications required under ISA 260

The following table contains communication required under ISA 260 (revised and re-drafted) “Communication with those charged with governance”.

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	There have been no material misstatements other than of a disclosure nature. These have all been accepted by management and have been updated in the financial statements.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. Board members will represent to us that they have considered the accounting policies and that there have not been any material changes in the accounting principles and policies used during the year.
Significant qualitative aspects of the organisation’s accounting practices and financial reporting , management’s judgments and accounting estimates	<p>The main, significant, accounting estimates required in the preparation of the financial statements related to:</p> <ul style="list-style-type: none"> the valuation of land and buildings and subsequent indexations of the value of properties. <p>As part of the 2011/12 audit we identified that management had employed the Office for National Statistics’ Output Price Index for Public Works (OPI) to index their assets and recommended that the Building Cost Information Service All in Tender Price Index (BCIS), which is also used by the District Valuer to inform their quinquennial valuations would be more suitable.</p> <p>In 2012/13 National Library of Scotland adopted the BCIS index to index their land and buildings.</p>
Deficiencies in the internal control environment	<p>The purpose of the audit was to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you.</p> <p>Such deficiencies in internal controls are included in Appendix 1.</p>
Details of material uncertainties related to events and conditions that may cast significant doubt on the entity’s ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of National Library of Scotland to continue as a going concern.
Disagreements with management	We have not disagreed with management on any matters which, individually or in aggregate, could be significant to the financial statements that have not been adjusted.

Confirmation of audit independence

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the entity and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

Governance and Performance

National Library of Scotland has a well-developed approach to risk management and performance monitoring involving the Board and the Audit Committee to ensure that organisational goals remain on track. This process has continued to be refined on an ongoing basis.

Civil Service Pension Scheme

The majority of National Library of Scotland staff are eligible to join the Civil Service Pension Scheme. The latest actuarial valuation for the scheme is dated 31 March 2004 and plans for future valuations have been put on hold by instruction of HM Treasury due to changes that have taken place as a result of the move from RPI to CPI inflation for the revaluation of liabilities, as well as plans for long term reform of public sector pension schemes.

While National Library of Scotland has no direct influence over this, attention should be brought to the matter as it may have a future impact if increased employer's contributions are required when the valuation is updated.

National Library of Scotland should ensure that the potential for increased employer's contributions in relation to the Civil Service Pension Scheme is considered in future financial plans to ensure resources are available to fund this if required.

Action 1

Appendices

Appendix 1 – Deficiencies in internal control

Finding	Management Response
1 Financial planning for pension actuarial valuation	
National Library of Scotland should ensure that the potential for increased employer’s contributions in relation to the Civil Service Pension Scheme is considered in future financial plans to ensure resources are available to fund this if required.	Within the known constraints of the grant-in-aid settlement and Departmental Expenditure Limits to which the National Library is subject, management will maintain awareness of the possible need for providing for future increases in pension contributions in developing future budget plans and reserves policy.

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