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# *National Library of Scotland*

## Annual Report to the Board and the Auditor General for Scotland

Year ended 31 March 2014



National Library of Scotland,  
312-320 Lawnmarket  
Edinburgh  
EH1 2PJ  
14 July 2014

Dear Sirs

We are pleased to provide you with our Annual Report to the Board and the Auditor General for Scotland, on the results of our external audit of the National Library of Scotland for the year ended 31 March 2014. The main purpose of the report is to communicate the more significant matters arising from our external audit of the financial statements that we believe are relevant to those charged with governance.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 23 September 2014. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are;

- Representation letters;
- and Subsequent events review

Once again we offer thanks to Management and staff for their assistance with our external audit work.

Yours faithfully

PricewaterhouseCoopers LLP

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# 1 *Executive Summary*

We have pleasure in presenting this report relating to our audit of the financial statements of the National Library of Scotland (NLS) for the year ended 31 March 2014.

We have discussed this report with the 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.

## Management responsibility

It is the responsibility of the Body to prepare the financial statements in accordance with Paragraph 12 of the Schedule to the National Library of Scotland Act 2012 and directions made there under. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Body and its expenditure and income for the year ending 31 March 2014; and
- preparing an Annual Report of the Board, a Governance Statement and a Remuneration Report.

## Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- give a true and fair view of the financial position of the Body and its expenditure and income for the year;
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
  - whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
  - whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).
- We are also required to review and report as necessary on other information published with the financial statements, including the Annual Report of the Board, the Governance Statement and the Remuneration Report.

## 1.1 Audit status

Our audit work on the draft financial statements for the year ended 31 March 2014 was carried out over a two week period commencing 16 June 2014. The audit is now complete.

## 1.2 Audit overview and conclusions

We have issued 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 Systems of Internal Control

The Accountable Officer in conjunction with management and the Board is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

Based on audit work performed we consider the systems of internal control in place appropriate for the needs of National Library of Scotland.

All misstatements identified during the audit have been adjusted within the accounts; therefore, we have no summary of uncorrected misstatements to present in this report. There were no significant control deficiencies identified in the current year, however one control recommendation has been raised in Appendix 1.

## 1.5 Financial Performance

The Body's key financial performance for the period is as follows:

- The final outturn was £19.633m against a revenue resource limit of £19.639m.
- Capital expenditure in the period was £1.500m which was within the core capital resource limit of £1.600m.
- Total incoming resources for 2013/14 increased by 6.7% from prior year to £16.932million (including £15.259 Grant-In-Aid funding).
- Expenditure in 2013/14 increased by £5million from the prior year reflecting the £2.1million grant to the NLS Foundation as well as increases in costs for publications, exhibitions and buildings maintenance.
- The results for the year show an excess of expenditure over income of £19.135million before Grant-In-Aid funding from the Scottish Government of £15.259million.
- The Scottish Government have confirmed Grant-In-Aid funding for 2014/15 as £16.918million. We have not identified any key indicators or been made aware of any factors that would suggest that the Body will struggle to meet its financial targets.

## 1.6 Other areas of feedback

Section 3 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing (ISA) 260 (revised and re-drafted) “Communication with those charged with governance”.

NLS have participated in the 2013/14 National Fraud Initiative program and have taken action to follow up identified matches on a timely basis.

We noted that the Income and Expenditure Statement (I&E) is required by the Scottish Government’s Financial Reporting Manual with the Statement of Financial Activity (SoFA) required by the Statement of Recommended Practice for Charities. The differing presentation of these two statements may make understanding of the accounts more difficult to the reader due to the exclusion of the significant Grant-In-Aid funding from the I&E. To support the work of NLS, applications for funding for specific projects are made to a range of grant awarding bodies. As part of the application process, recent financial statements meeting charity requirements are typically required.

We look forward to the opportunity to discuss the report with you at the Audit Committee meeting on 11 August 2014.

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 throughout our work. In particular, we would like to note our appreciation for the high quality audit working papers and deliverables that were provided.

## 2 *Audit findings*

Our audit followed the strategy set out in our Audit Strategy document presented to the Audit Committee on 12 March 2014. We confirm that there has been no cause for us to vary the planned scope of our work.

### Our response to the areas of audit focus identified in the audit plan:

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

Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of NLS. NLS have in place an appropriate code of conduct and whistleblowing policy.

## 3 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	We did not identify any misstatements which have not already been adjusted by National Library of Scotland in the financial statements presented for approval.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask board members to 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 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"> <li>• Indexations of the value of properties.</li> </ul> <p>NLS continue to use the Building Cost Information Service All in Tender Price Index (BCIS), which is also used by the District Valuer to inform their quinquennial valuations.</p>
Deficiencies in the internal control environment	The purpose of our 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. Such deficiencies in internal controls are included in Appendix 1.
Details of material uncertainties related to events and conditions that may cast significant doubt on the National Library of Scotland’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.
Significant difficulties encountered during the audit	We did not encounter any significant difficulties which would prevent us from undertaking the audit.
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 National Library of Scotland 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.



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## Governance and Performance

All Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of Best Value in the use of resources. National Library of Scotland is accountable to the Scottish Ministers.

We have assessed the Body's overall governance arrangements including a review of Board structure and minutes, financial reporting to the Board, and risk management. The National Library of Scotland has a well-developed approach to risk management to ensure that organisational goals remain on track. This process has continued to be refined on an ongoing basis with this being considered regularly by the Board and the Audit Committee. Appropriate evidence of activity has been provided by the Body.

The Code of Audit Practice requires us to review and report on the Body's Annual Governance Statement. The Body has used the appropriate format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Body's control framework have been highlighted.

Based on our normal audit procedures, **we agree that** the disclosures contained in the Statement are consistent with our audit findings. We consider that appropriate governance arrangements and reporting are in place.

The Compliance, Audit and Review Manager, supported by Henderson Logie , have completed their audit plan for 2013/14.

Based on audit work performed we consider the Internal Audit function and the systems of internal control in place appropriate for the needs of National Library of Scotland.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

# *Appendices*

# Appendix 1: Deficiencies in internal control

## Current year recommendations

### Deficiency, recommendation and management response

2013/14

#### Review of Manual Journals

We tested a sample of 20 manual journals and noted that 6 of them had not been reviewed and signed off by a second person until at least 3 months after the journal was posted.

#### Recommendation

We recommend that manual journals are approved and signed off by a second person within one month of being posted.

#### Management Response:

We accept this recommendation and will aim to review journals more promptly.

## Status of prior year recommendations

The following table details the outstanding internal control recommendations identified during our 2012/13 with a current year update.

### Deficiency, recommendation and management response

2013/14 update

#### 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.

#### Management response

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.

#### Status: Implemented

NLS has recently received an indication of the increase in employers' contributions for 2015/16. Allied to this the Corporate Leadership Team has agreed to move towards more longer term financial planning – with the intention to work over a three year period. This will include all the known cost increases which the Library will face – including pension increases (15/16), national insurance increases (16/17) and new premises in Glasgow.

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